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With The Editors

Ill Wind Blows Good

In this very sad world it gives us a modicum of comfort to note that it is now the bureaucrats and brass hats who are on the spot, while Big Industry is back in public favor.

It was bound to work out that way, although it was not planned by anyone and we didn't think of it when the war was thrust upon us.

Responsibility for the general management of the war effort centers in Washington. The statesmen, politicians and bureaucrats cannot dodge public blame for reverses and frustrations. The fact that they may be doing the job as well as circumstances permit does not cool the hot spot they are sitting on. Big Business was also doing its job as well as circumstances permitted during the ten years that it was berated, scorned and kicked around by the college professors, theorists and super-planners at Washington.

Our industrialists are now merely patriotic soldiers in the ranks, carrying out Government orders. They obviously have every reason to put forth almost super-human effort to speed and expand war production. This is their meat, and they are going to town. Whatever else may be happening to us in the war, miracles are being performed on the production side. That is why even left-wing journalists today write in ecstatic praise of what they see in the motor plants out in Detroit—and with disgust over the red-tape and confusion they see in Washington.

The American people know that all depends upon the production of the planes and guns and tanks and powder and all the other war equipment and supplies. They realize in a flash that not even a pop-gun could be turned out by Harold Ickes, Harry Hopkins or all the other big-wigs in Washington. Nor by Sidney Hillman or Labor Tycoon John Lewis. They know that in the vast production game the industrialists are both the coaches and playing captains of the teams—and that without the organizing and planning genius of these men no amount of labor and materials would be worth a hoot.

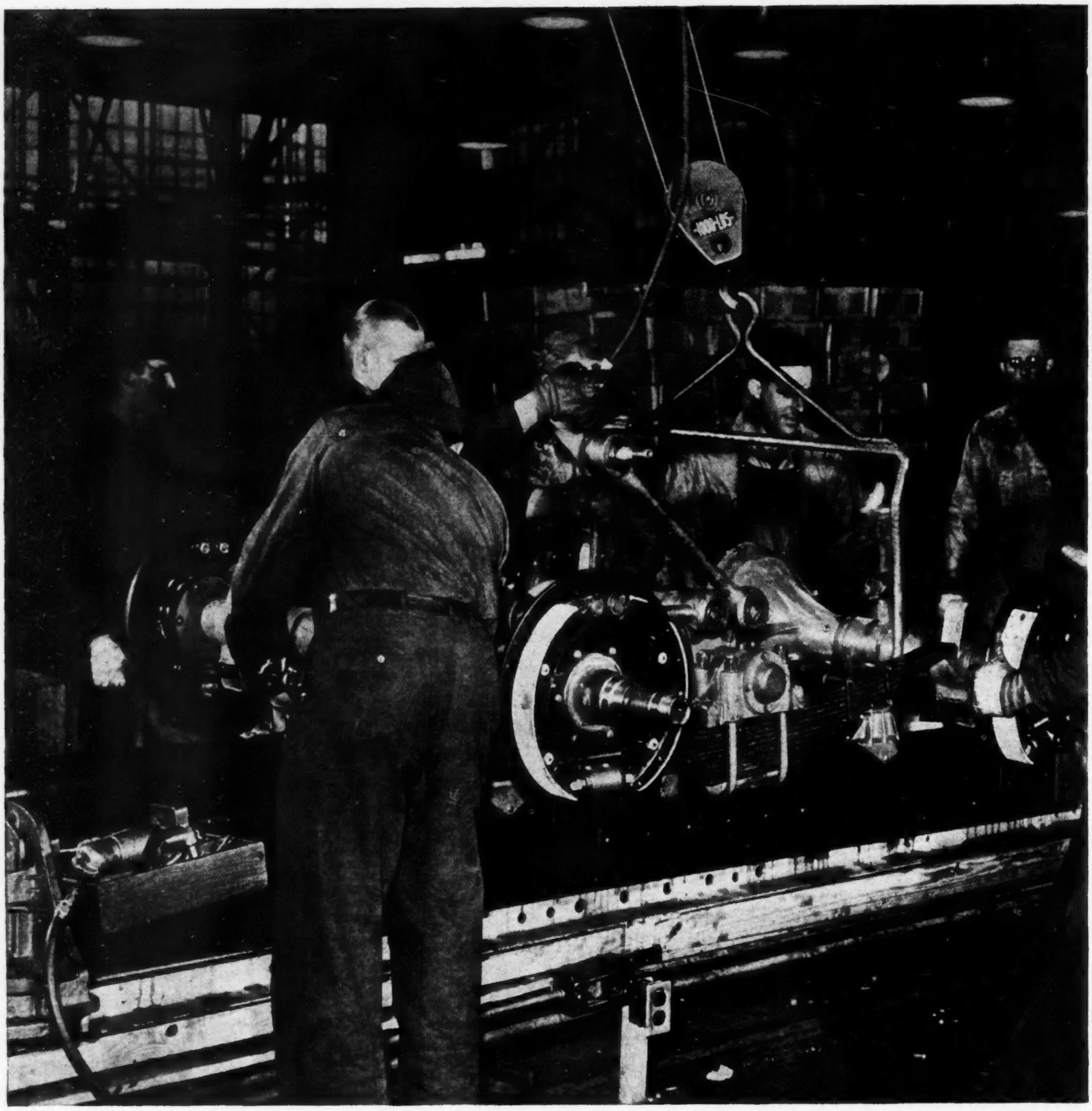
So the American industrialists are back in high favor with John Q. Public and it matters not at all that they will continue to lack the personal love of the New Deal politicos and vice versa. We have an idea that some permanent good to the nation will come of this. Our people will realize that Government planning cannot solve all our economic problems, and that neither can private enterprise; that both are essential; and that an effective, workable balance between them must be reached. Thus the pendulum will swing back to the sane middle road.

★ ★ ★ COMING IMPORTANT FEATURES ★ ★ ★

1942—Re-appraisal of Earnings and Dividend Forecasts

Part IV—March 7th Issue:

Aviation, Oils, Motors and Accessories, Tires, Chemicals

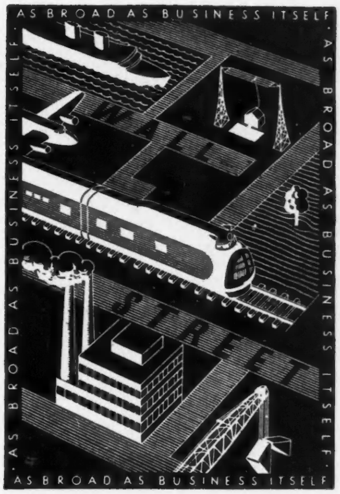


Studebaker Photo

We will have to think up a new name for the automobile industry. It is now simply a vast pool of factories engaged solely in war production. Machines that can't be converted have been ripped out. There are $12,000,000,000 of orders on the books and more to come. Before long it will be the No. 1 war industry. What about profits? Nobody knows, but there will be some.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* | Laurence Stern, *Managing Editor*



The Trend of Events

SABOTAGE . . . In a grimly critical hour of this nation's history, what is Congress doing? Answer: Renewing the sordid squabble over farm prices. In the Senate the greedy farm bloc has come up with a bill which would forbid sale of Government-held surplus stocks of wheat, corn and cotton at less than "parity" prices. The Administration's power to make such sales is the only offset to the inflationary farm price provisions in the so-called Price Control law recently adopted.

Secretary of Agriculture Wickard states that agriculture is now assured of parity income even if some prices are not at parity; and that the new farm bloc drive, if successful, would cost the American consumers at least a billion dollars a year. Very likely President Roosevelt will veto the bill if it reaches him; and it will then remain to be seen whether two-thirds of the members of Congress will dare to sabotage the effort to fight this war without a costly inflation.

Yet while the farm group's politically-inspired course is deplorable, it is understandable. The fact is that from the top down there has been no real moratorium on politics in Washington, and no willingness among officials or agencies to sacrifice pet spending schemes. Congressmen from the farm states have seen the Administration, up to the present, persist in its economic and political favoritism of the labor unions. It sees a swarm of job-seekers added to the Federal payroll each week, with no effort to shift unneeded employees from any of the swollen non-war agencies. It sees the much publicized First Lady making a patronage circus of the Civilian Defense set-up. It sees the President persisting in his effort—now reduced to a straight log-rolling affair —to get appropriations for one of his long prized schemes, the controversial St. Lawrence Waterway.

One official after another warns repeatedly that the American people are still too complacent in the face of the national danger. We, the people, are sternly told of the deep sacrifices we must make. Our reply is this: Gentlemen of Washington, if you want to know why public morale is not as high as it should be, look inwardly at yourselves. You are what is the matter with us.

INDUSTRIAL EXPANSION . . . In our issue of December 27 our industrial volume forecast for 1942 put the probable increase as somewhere between a minimum of 12 per cent and a maximum of 18 per cent, as compared with record-breaking increase of 27 per cent in 1941. So many variable new factors and bottlenecks have to be allowed for that we would take with a grain of salt any more precise estimate. Yet it is interesting to note that

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the Department of Commerce now forecasts a rise of 15 per cent or exactly half-way in the range we projected.

The most significant thing in the official estimate, however, is its accompanying comment on the character of this year's increase in production. It is stated that nearly one-third of the total rise in 1942 industrial output will occur in the aircraft industry. The machinery industries are expected to account for almost another one-third of the aggregate increase, this classification including aircraft engines and ordnance as well as machinery and machine tools. It is estimated that shipbuilding will account for one-sixth of the total rise.

The Reserve Board index is expected to average 180 for the year, against 156 last year—but the civilian portion of the total is forecast as 31 per cent less than in 1941 and the war portion as 188 per cent greater. The separate index of output of durable goods is forecast at 254 for the year, against 193 for 1941—but again with a radical shift in composition of the volume. Production of civilian durable goods is expected to decline by 59 per cent from 1941 level, while the war portion of durable goods output jumps by 199 per cent.

In non-durable goods, which relate most closely to the month-to-month living standard, output for civilians is forecast at 107, a drop of 14 per cent from 1941 and slightly under the level of 1939; while output for war is expected to rise by 145 per cent to 27 per cent of the total, against 11 per cent last year. It is to be noted that the figures relate only to manufactures, which cover, of course, much less than the full range of consumer expenditures. But any way you look at it, we are on our way to some jolting changes in our economy.

WAGE CONTROL . . . Price Administrator Leon Henderson has appeared in person before the National War Labor Board to urge that it refuse to grant any "substantial" wage increases. He said that industry "cannot absorb many more cost increases" without passing them on in higher prices and thus speeding the wage-price inflation spiral; that the Government's policy calls for stabilizing the public's purchasing power rather than let it expand; and that, if wage increases seem justified, they should be paid in defense stamps or bonds rather than cash. It is reported that Mr. Henderson wrote a letter in similar vein to the President, who read it to the six A. F. L. and C. I. O. "peace delegates" meeting with him at the White House recently.

This shows the way the wind is blowing as C. I. O. demands for a $1 a day wage increase in the steel and automobile industries are pending before the Labor Board. But Mr. Henderson could logically have gone further and spoken more frankly. He could have pointed out that industrial wage gains have far outrun the rise in the cost of living. He could have observed that the steel and motor industries from here on will be working almost exclusively for the Government at prices set by the Government. He would have been nearer the reality if he had said that the Government will have to reduce present surplus consumer buying power, rather than merely stabilize it.

The suggestion that any wage increases granted be paid in defense stamps is out of order. This would still raise industrial operating costs and in that respect would be just as inflationary as wage increases paid in cash. Moreover the workers can convert defense stamps or bonds into cash at a slight discount and spend the money. And workers who save something from cash earnings could reduce these savings by the amount of the defense stamps they receive and thus spend the cash equivalent of the stamps. From both sides, then, higher wages in defense stamps would be inflationary.

The way to halt wage inflation is to halt it. All that the Government need do is take a frank and adamant stand against unjustifiable wage demands. In this greatest crisis in our history, the public and a majority of the workers would back that policy—well knowing that today labor is better paid by far than ever before.

A FULL WAR ECONOMY . . . "War economy" is a loose term. What it describes is variable in degree. Thus, obviously, England, Canada and Australia are much more genuinely "all-out" than we in war effort. The standard of measurement should relate to voluntary contribution and discipline, as well as to compulsory regulation. For instance, Canada does not yet have conscription while we do—yet out of a population of 11,500,000, some 422,000 Canadians have enlisted for service anywhere the Government wishes to send them in the army, navy and air forces. On a proportionate basis, we would have approximately 4,810,000 volunteers in our armed forces today. We have nowhere near that in drafted men or volunteers.

Australia has gone much further than any of the other democratic nations engaged in the war in rigorous economic-financial regimentation. Prices, wages and interest rates are pegged at the recently prevailing levels. New capital investment is controlled to prevent speculation. No one, for instance, may purchase real estate or jewelry as a safeguard "against war contingencies." Business profits are pegged at a maximum of 4 per cent on capital, which is defined as paid-up capital plus reinvested reserves. Employment can only be obtained through Government labor bureaus. Employers are forbidden to discharge employees vital to essential industries. Drastic penalties are imposed on workers who absent themselves from work except for prescribed reasons, including sickness. Needless to say, all people, all enterprises and all materials are subject to "draft."

Australia is in imminent danger of invasion and has a Left-wing Labor government. In all democracies, the political status and the urgency of national danger determine the scope and severity of compulsory governmental controls. Quite aside from this, however, there is also a time factor involved. Australia, like the United States, had to build armament producing facilities first. Until they begin to produce in quantity, a country does not encounter the strains and dislocations which dictate imposition of full regimentation. Probably not before next year will it be completely accurate to describe our effort as "all-out."

As I See It!

BY CHARLES BENEDICT

WAITING ON HITLER

After two and a half years of war, it is maddening to realize that Hitler still has the initiative. No evidence exists that the democracies have figured out Hitler's plan of action, nor have they prepared counter measures other than defensive. And here, too, only General MacArthur seems to have had any definite plans, and made the proper preparations to meet an Axis onslaught. Our Philippine forces held out because General MacArthur, in laying out his campaign, undoubtedly prepared for the worst. The worst happened—and he was ready to meet it. And if the Japs had not been able to go through the English like butter, much could have been accomplished.

I can conceive that with the landing of strong reinforcements and 500 planes, MacArthur could have driven the Japanese out of the Philippines and prevented them from establishing themselves in strategic bases in and about the Indies. It was the resistance in the Philippines that forced the Japanese to concentrate on the Malay Peninsula and Singapore. Here British generalship was so criminally negligent and fantastically unaware of the dangers right under their very noses, as to be incredible, even to the man on the street.

For two years, the Japanese have been in occupation of Hainan, and in control of Indo-China, in agreement with Vichy. Where was the British Intelligence Service during this period, while Japan was concentrating for an assault through the Malay Peninsula, and landing large numbers of troops, planes, tanks and other war materials in adjacent territory?

The weakness of Singapore, and the facts, according to Cecil Brown, crack CBS reporter, that the British did not carry out the "scorched earth" policy, but abandoned vast storehouses of food, rubber and tin, untouched to the Japanese—that all watercraft from lowly river boats to steamers were undamaged—that at Penang, they left a quarter of a million dollars intact in the Treasury, with the most important radio station in complete working order, so that all the Japs had to do was turn on a switch in order to begin broadcasting—will create such distrust of British activities as to injure greatly their cause the world over. And the prestige of the entire United Nations will suffer thereby.

It is very significant that Cecil Brown, who was banned from the air by the British at Singapore a few weeks ago, should have been permitted by the Australians to broadcast this story from Sydney.

And as if further to hold the British up to ridicule and scorn before the world at this critial juncture, the Germans successfully made a daring dash through the narrow Dover straits, bringing the battleships Scharnhorst and Gneisenau, whose bombing by the Royal Air Force made daily headlines some time ago, safely to their Heligoland base. This audacious performance will rise to plague the British among their friends, and give plenty of ammunition to the cynical who all along have questioned British sincerity.

From a strategic standpoint, the Nazis won a naval victory of importance—of service to Japan in the Pacific—of dangerous import to the Atlantic. It may result in a weakening of the British Mediterranean navy, and bring the French fleet in on the side of Hitler, should the English fall into the Nazi trap and dilute their naval strength to rush support to *(Please turn to page 573)*

Movietone Photo **BAUDAR SHAPUR ON THE PERSIAN GULF.**
American and British supply lines to the Mid-East are gravely threatened.

What's Ahead for the Market

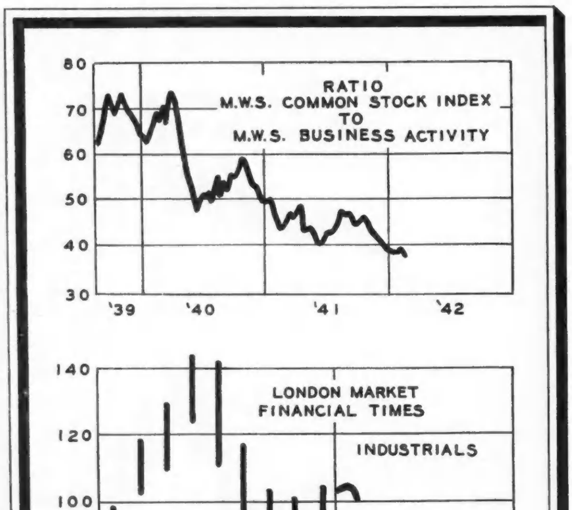
The great majority of stocks show stubborn resistance in the face of bad war news. We believe selective purchases for income and appreciation are justified and various issues displaying superior action are listed in this article.

BY A. T. MILLER

Summary of the Fortnight: Under a heavy concentration of bad war news, our weekly index of 270 stocks declined only 8/10 of 1 point, while the Dow-Jones industrial average gave up 1.81 points and the rail average dipped a trifle over ½ point. But increased liquidation carried our weekly average of 15 high grade equities down sharply to new low for the entire war period.

To put it mildy, the general market has had no help from the recent news. Here, in brief, is an avalanche of bad news almost in one dose:

(1) The capitulation at Singapore, only first class naval base available to the United Nations anywhere near the Far East. Large Japanese forces freed for use elsewhere.



(2) Dutch destroy their largest and last remaining oil fields and refineries in Sumatra, thus tacitly conceding this 1,000-mile long island to the Japs. Ability of Java to hold out is the next big question mark in the Indies area. Its conquest would leave Australia and New Zealand in grave jeopardy, and these would be the only remaining South Pacific bases for United Nations' operations.

(3) Occupation of Sumatra will give the Japanese free access to the Indian ocean, greatly increasing their threat to Burma, the Chinese supply route, India and the U. S.-British supply route to the Mid-East, North Africa and India.

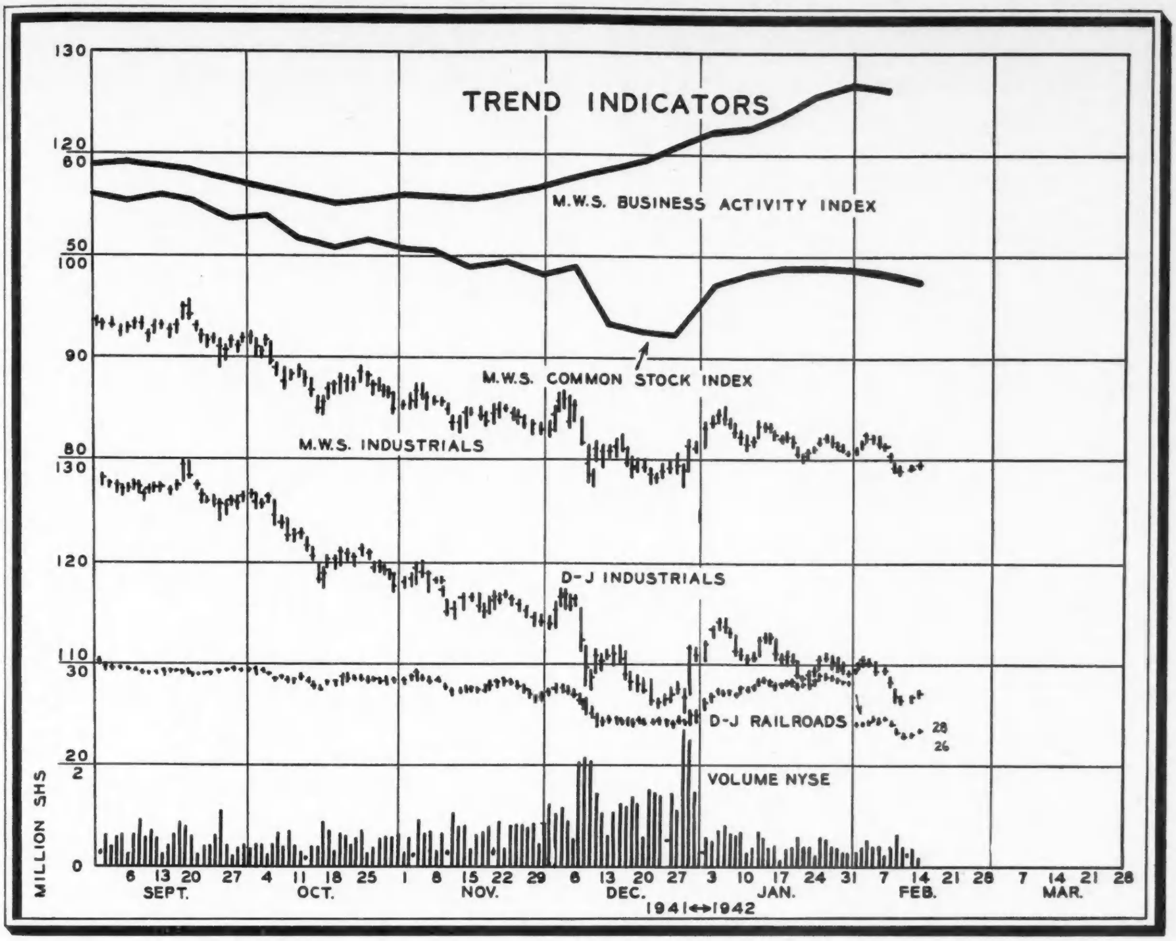
(4) Escape of two German battleships and a heavy cruiser from Brest importantly shifts the balance of naval power and complicates the already formidable U. S.-British task of maintaining trans-ocean operations.

(5) The Russian counter-offensive has obviously slowed down and from present indications it seems highly improbable that the Germans are going to suffer the disaster on the Eastern Front that Soviet propagandists are talking about.

(6) Churchill reveals that the Mediterranean has been closed to Allied merchant ships. This can only mean that Axis air power and submarines have become increasingly effective in that ocean and that large reinforcements—with the aid of Vichy France—have reached, and continue to reach, Rommel in Africa. The near-term threat of a major Axis pincers drive on Suez and the Mid-East from both sides looms larger.

Of course, much of the above budget of news had been foreshadowed for weeks and little of it was a complete surprise or shock to investors and traders. The main effect of depressing war developments—plus continuing uncertainty over the coming Federal tax legislation—has been to reduce volume of transactions to a very low level. For the market as a whole—as distinct from some of the more selected "averages"—the fluctuation has become almost glacier-like in its ponderous slowness.

On the whole, we think the resistance displayed is encouraging. Under the heaviest accumulation of tragic war news since the desperate British evacuated Dunkerke in the early summer of 1940, even the Dow-Jones industrial average has held thus far above its December



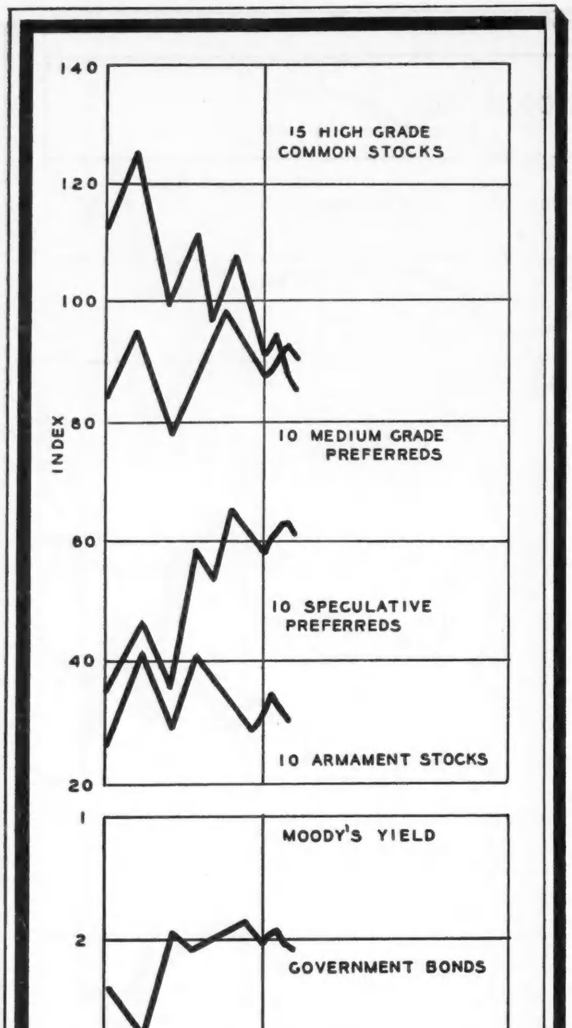
low, while our far more representative weekly index of 270 issues shows dogged resistance at a level some 5 points, or more than 10 per cent, above its December low.

While the fall of Singapore was not unexpected, the sum total of Japanese successes over the whole short period since the attack on Pearl Harbor has been a disagreable surprise and shock. Now we may have still more reverses, but it is hard to conceive that anything else can remotely match these past ten weeks in surprise. Thus it may be that, regardless of future news, we have seen the psychological worst. Since it produced but a minor market reaction—and no semblance of collapse or panic—one must concede that the market, taken as an entirety, gives substantial evidence of having marked out a support level from which further retreat, if it comes at all, is likely to be relatively small. If the worst marketwise has been seen—and we think there is an even chance it has been—then the prospect for the next few weeks is for either continued narrow and dull movement or at least a minor rally; and the odds steadily increase that the next movement of any substantial scope is much more likely to be up than down, whether it begins in spring or summer.

There probably has never before been a market of such extraordinary diversity of trends of individual securities. Thus, while the Dow-Jones industrial average at its lowest close last week came within a fraction of duplicating its December low, some of the key stocks, in this composite, which figured prominently in the December weakness, have shown much greater firmness ever since; while additional "special situation" reactions have put others in the bearish limelight much more than in December. Most steels, for instance, made their lows on December 10 and have not since come even close. The leading motor stocks also display persistent resistance, well above December lows.

Against this, aircrafts, various chemicals and a fair number of war casualty issues in the consumer goods field have sagged to new 1941-1942 lows. The common theme running through most "special situation" weakness is either potential exceptional vulnerability to coming higher Federal taxes or profit-reducing disruptions anticipated in the transition to a full war economy.

There is technical evidence to suggest that the great majority of stocks, even those hard hit in a war economy, have completed the deflationary market adjustment or by far the greater part of it. Well above former lows are such erstwhile "goats" as Chrysler, General Motors, Commercial Investment Trust, American Air Lines, Eastern Air Lines, International Nickel, Hudson Bay Mining & Smelting, Continental Can, Holland Furnace, Eastman Kodak, Johns-Manville, McGraw Electric, Outboard Marine & Manufacturing, Union Carbide, Wool-



worth. The lowly utilities and many other deflated issues now move 1/8 point per week.

We think we are getting down pretty close to the bottom of the larder in weak or potentially weak "special situations"—with the great majority of issues thoroughly "sold out."* While a market will never be devoid of selectivity, we are nearing a time when the minority of cases of special softness probably will be too small to have much influence on the broader averages. For example, our weekly average of 15 high grade equities seems to be going its independent way. It declined 2.42 points over the past fortnight, while the index of 270 stocks gave up but 8/10 of 1 point. It is now more than 5 points under its lowest level of December, while even the Dow average is much better than that. High grade stocks have often been the tail-enders in market deflation; and when this selective average shows convincing signs of stability we can be fairly confident that the last important down-drag on the broader averages has ended. Meanwhile, reflecting the sold-out situation upon which we have previously commented, our index of the 100 lowest-priced stocks included in our weekly composite, now stands more than 15 per cent above its December low, although it gave up a small portion of its "year-end" rally over the past fortnight.

Stocks subject to above-average pressure at the present time include American Chicle, Monsanto Chemical, Procter & Gamble, Air Reduction, Beech Nut Packing, Dow Chemical, du Pont, Standard Oil of Indiana, Bendix Aviation, Standard Oil of Ohio, Consolidated Aircraft, Fairbanks, Morse, W. T. Grant, United Aircraft, Bond Stores, Coca Cola, Kresge, Phillip Morris, Allied Chemical, Bristol Myers, Caterpillar Tractor, International Business Machines, Sperry and Sterling Products.

A partial list of stocks acting exceptionally well in a drab market setting includes: Allegheny-Ludlum Steel, American Car & Foundry, all sugar issues; the American & Foreign Power preferred issues and most other speculative preferreds; American Car & Foundry, American Smelting, Anaconda, Atchison, Atlantic Coast Line, Bethlehem Steel, Borg-Warner, Doehler Die Casting, Food Machinery, General Motors, Chrysler, the Erie issues, International Harvester, Kroger Grocery, Lima Locomotive, Loew's, Mack Truck, Masonsite, National Distillers, Newmont Mining, Newport News Shipbuilding, Paramount, Remington Rand, the Southern Railway issues, Timken-Detroit Axle, United Drug, U. S. Steel, U. S. Industrial Alcohol, Westinghouse Electric and Wheeling Steel.

For technical perspective it is significant to note that most rails, motion pictures, air lines, oils and liquors made their last lows in the spring of last year.

Here is a partial list of other representative stocks in which the previous lows are now from six months to a full year in the past: Adams Express, Alpha Portland Cement, Amerada, American Air Lines, American Bank Note, American Agricultural Chemical, American Car & Foundry, American Coal, American Commercial Alcohol, American Metal, Anaconda, Anchor Hocking Glass, Archer-Daniels-Midland, Barnsdall, Borg-Warner, J. I. Case, Chicago Pneumatic Tool, Cluett Peabody, Corn Products, Deere, Doehler Die Casting, Eastman Kodak, Eastern Air Lines.

Also: Endicott Johnson, *(Please turn to page 573)*


Charles Phelps Cushing Photo

Consumer Rationing

DIVERSE EFFECTS ON INDUSTRY AND TRADE

BY JOHN D. C. WELDON

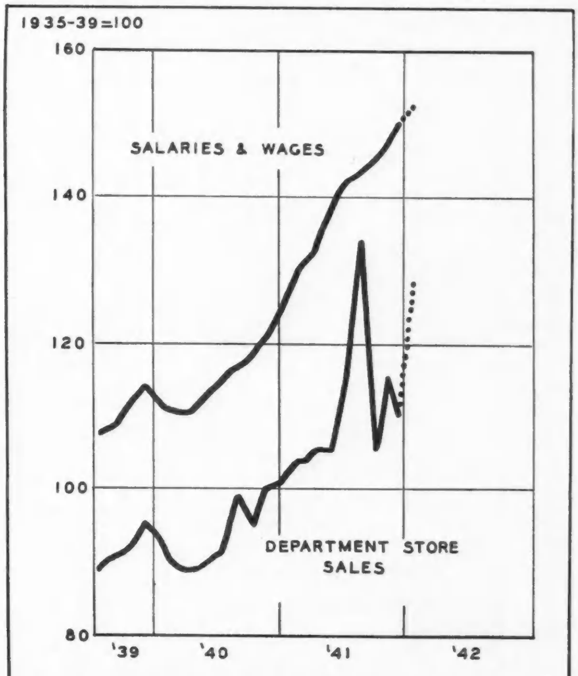
A FEW weeks ago in a speech over the radio the Secretary of Agriculture expressed concern over the sugar supply outlook and urged the public to refrain from hoarding this food.

What happened? Housewives all over the country made a concerted rush to stock up on sugar. An impending shortage which would have required imposition of rationing at some time within 1942—due to curtailed Pacific imports and diversion of sugar-derived alcohol to war uses—became immediately urgent. Rationing plans had to be hastily devised and will promptly take effect.

With this example in mind, it is not to be expected that from here on Government officials will sound off in warnings about shortages and rationing—least of all concerning the identity of the particular consumer goods items that are headed for such control. On the contrary, the whole subject will be soft-pedaled, great care will be taken to keep secret the formulation of rationing rules and the objective will be to apply necessary rationing with the least possible advance notice.

Habituated to the world's greatest supply and variety of consumer goods, it is hard for Americans to believe that they are really facing any considerable number or variety of shortages. Sure, there's the case of automobiles and tires and sugar—but those are special situations. That rationing must extend to more than a very few items seems almost incredible—incredible like the successful Japanese attack on Hawaii.

There is no use trying to come to statistical grips with this problem by weighing prospective supplies against normal demands. There are too many variables—subject to radical change from unpredictable contingencies—affecting both sides of the equation. On the supply side, trace any consumer product from its origin to the



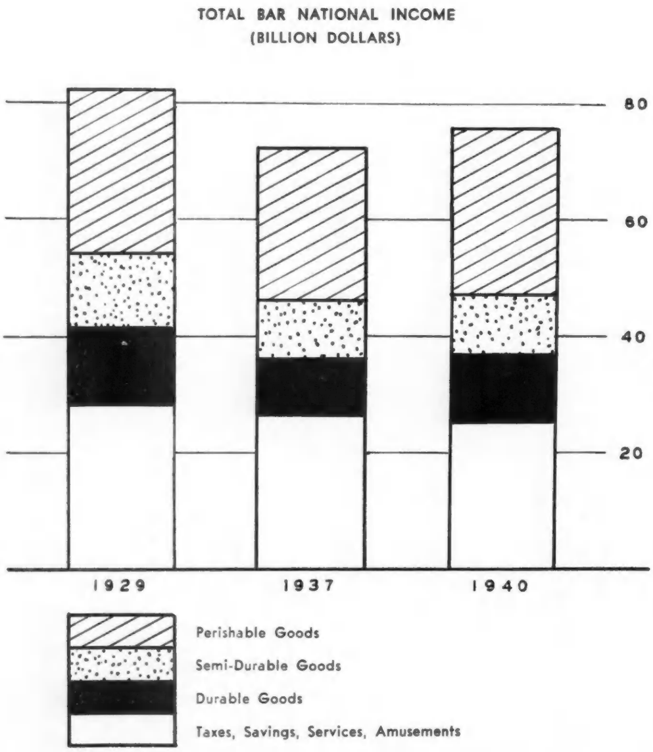
ultimate retail sale and you will note that its availability depends upon a nicely balanced combination of raw materials, labor, machinery, power and transport. Shortage in any one of these elements will mean shortage in the retail product.

Up to now, in thinking about scarcity we have been thinking mainly about raw materials—and many certainly will be scarce. But ahead of us is a vast increase in production of armaments and munitions, in the number of workers engaged in war production and in the number of men inducted into the armed forces. A general shortage of labor is inevitable, and in labor supply the war needs will, of course, have priority over all save the absolutely essential consumer industries. Total supply of machinery in essential consumer industries can be maintained but not increased. Power will be short in some of the most active industrial centers. When we come to transport—who knows? The railroads are all right; ocean ships will be worth their weight in copper—one would formerly have said in gold;— and automotive transport remains a big question mark. Tires are wearing out week by week, and maybe we will get enough synthetic rubber in time. If so, it will be the first emergency need we got in time.

Then take the demand side of the picture and consider the following:

(1) The total "normal" demand for consumer goods is geared closely to the prevailing level of consumer purchasing power. Purchasing power today is at by far the highest level we have ever known, approximately 25 per cent greater than in 1929.

NORMAL OUTLETS OF CONSUMER INCOME IN ACTIVE YEARS



(2) The millions in the armed services don't eat guns or dress in shell casings. They have to be supplied with many types of consumer goods such as you and I regularly buy. The total of that demand this year will approximate one-fifth of all the perishable and semi-durable consumer goods purchased in 1941.

(3) We are committed to deliver quantities of consumer goods to various of our fighting allies; the current deliveries are a secret; and the total of possible future deliveries is beyond prediction. In furtherance of our hemisphere policy, we have to maintain the highest feasible level of deliveries of various types of consumer goods to Latin-American countries, from which we are currently importing unprecedented quantities of raw materials.

(4) In recent weeks the American consumer has embarked on the greatest hoarding rush ever known, with the result that "threatened" shortages in scores of items are daily being translated more and more into the actuality of the present.

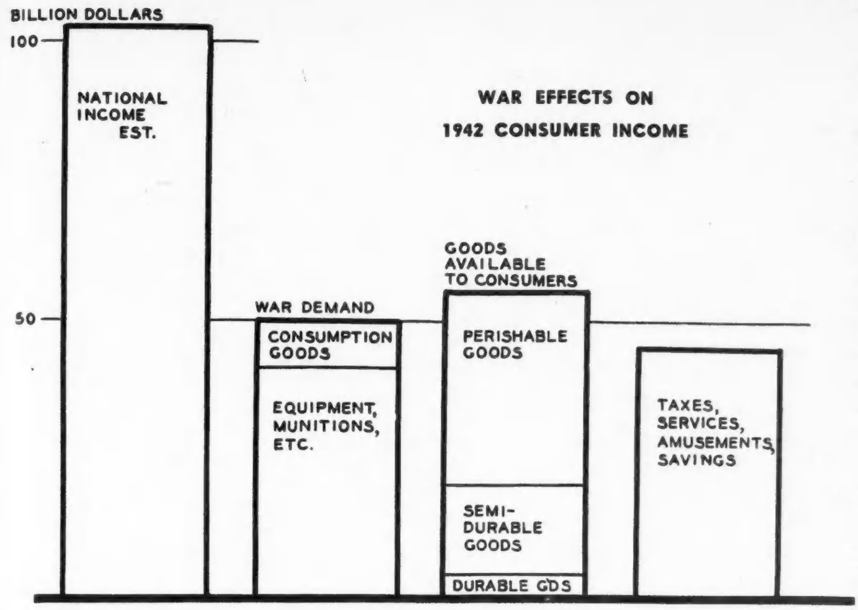
What Will Be Rationed?

Put all of the above together and it inevitably spells widespread consumer rationing. The hoarding movement cannot be allowed to continue unchecked, for it rapidly depletes the supplies available in the open market, magnifies and complicates the scarcity problem and results in consumers with the most money getting the most goods. It is thus out of order on economic, social and political grounds.

If you want to know what particular consumer goods are likely to be rationed, just note the things on which the buying rush is centered. Here are some of them: sugar, all canned fruits and vegetables, canned dog foods, canned meats, tea, coffee, cocoa, spices, dry cereals, cooking and salad oils, soft bottled drinks, canned milk; used tires, glass jar rubbers, rubber bands, girdles, bath mats, water hose, rubbers and galoshes, golf and tennis balls, door mats, bathtub and washstand plugs, paper towels and napkins, waxed paper, cleansing tissue; all woolen garments, silk and Nylon hosiery, shoes, shirts, underwear; soaps, rugs, furniture, bedding, hairpins, hair curlers, face creams, lotions, scalp preparations, household or garden tools and hardware, paper clips, typewriter ribbons, paint brushes, fish hooks, canned lubricants, anti-freeze preparations, etc.

I don't say all these things are headed for imminent rationing—but now that most everybody is "shortage conscious" it is most likely that the hoarding spree will continue until it is stopped by the Government; the only way it can be stopped is by rationing; and the longer the rationing is deferred the more serious will become the shortage problem for those who have not had the means to stock up.

The British have gone through all of this. If our Government takes to heart the British mistakes of "too little too late" in rationing, as in most everything else, it will deal firmly and promptly with the rationing problem. If it



"waits to see" and temporizes, the rationing will be limited in scope, delayed in timing and inequitable in operation. It is true that the British, having to import so large a proportion of consumer goods and supplies—especially food,—are in a position much different from ours. On the other hand, our normal situation is radically changed now by many new factors, not the least of which is hoarding itself. Madame Rubenarden's bubble-bath crystals might be super-abundant today but let millions of women get the idea they are going to be scarce six months hence and they will became scarce, at higher prices, next week.

There is just one supply that can really be taken for granted—the air we breathe. Who thought is possible that a shortage in cotton goods could develop? For years we have had a glut of raw cotton, despite large acreage reduction under the Federal farm adjustment program; and there are millions of bales of the stuff in Government warehouses. Also for years we had more cotton mill capacity than our domestic consuming market could keep busy.

Nevertheless, civilians are facing a shortage in cotton goods. We are turning out about 1,000,000,000 square yards monthly, nearly 50 per cent more than the average of the five years 1935-1939 but direct and indirect war uses are now taking some 400,000,000 yards a month and soon this will rise to 500,000,000 yards. Cessation of silk imports, limitations on woolen goods, shortages in burlap, linens and other imported textiles, and scarcities in various types of rayon goods have diverted increased military and civilian demands to cotton. Thus, with civilian demand at record high, available civilian supply will be at least 30 per cent under the average of 1935-1939.

Production cannot be expanded importantly above present levels. Even maintenance machinery parts are not easy to get and new machinery is out of the question. Many mills have a local labor shortage precluding 3-shift operation.

I have discussed cotton in this detail because it is a perfect example of the way in which war demands and dislocations can quickly transform surplus or adequate supply into shortage. This situation also illustrates a basic principle that must be followed in rationing; which is that if you ration one product, you will have to ration competing products also. If you ration woolen or rayon goods, thus shifting still greater demand to cottons, you have to ration cottons.

Rationing—coupled with Federal licensing of suppliers in order to assure compliance—is one of the most effective means of controlling prices. It adjusts effective demand to the available supply. If your ration allowance permitted you to buy one pound of sugar a week, your purchase would have no effect on price. If sugar were not rationed, you might buy ten pounds a week for hoarding and that would tend to raise the price.

Studies by the National Bureau of Economic Research indicate that in years of high national income—such as 1929, 1937 and 1940—consumers spend from 34 to 36 per cent of their income for perishable goods; from 13 to 16 per cent for semi-durable goods; from 13 to 15 per cent for durable goods; leaving a balance of 33 per cent to 40 per cent for services, amusements, taxes and savings. The figures, of course, represent a national average.

Obviously, the current year will bring a pronounced change in the normal spending habits of the average consumer. Despite heavy 1941 demand for consumers' durable goods—some of it in anticipation of scarcities or stoppage of production—the ratio of this spending to national income was but 15.5 against 13.2 in 1937 and 15.7 in 1929. Allowing both for 1941 forward buying and for increased 1942 payrolls, the conclusion must be that the estimated 1942 national income of 100 billion dollars would create a demand for at least 15 billions dollars worth of consumers' durable goods—if the goods were available. How much will be available is impossible to say. It might be somewhere around 4 billions, more of which would come out of inventory than out of new production. On this estimate, that means 11 billions of purchasing power diverted from the spending outlets it would normally seek.

And to the extent that rationing reduces consumption demands below their normal ratio to consumer income, additional billions of purchasing power will be diverted from normal spending channels. If your wife customarily buys two pounds of butter a week but can buy only one pound on the family ration allowance, income equivalent to the cost of one pound is available for other goods or services or for taxes or *(Please turn to page 570)*

Charles Phelps Cushing Photo

BY E. K. T.

Price control office is being geared for broad rationing program. Public and industry alike should expect some rude shocks along this line. A multitude of household necessities will be rationed. Food rationing will become common during the war, probably will be broadened after the war when U. S. shoulders the burden of feeding the world. Much of this control will be exercised through trade channels, will limit deliveries to retail outlets. In other cases, consumer rationing will be invoked. But don't look for much real evidence of this until after November elections.

Ration blundering has thrown the fear of extermination into Roosevelt's politicians. The political brass hats hear threats from housewives who were caught napping and didn't hoard sugar. Rationed and bootlegged tires are available to some and not to others. There's a murmur of resentment which political policy makers fear may rumble into the tom-tom of election war drums.

Washington Sees:

War production is entering its greatest crisis.

This arises from belated and official recognition that the supply of materials and men set definite limits to production—even of munitions. Now materials and men must be subordinated, harnessed, and put to work where most needed. Decisions must be made—and enforced. Equipment, manpower, even management, must be pooled and interchanged.

And don't for a moment get the idea these decisions won't be enforced.

The President can and will be ruthless where necessary. Congress gave him the power. He already had the courage.

That's one reason why National Democratic Chairman Flynn has opened hostilities against the GOP at such an early date, why the President has echoed his cry for patriotism at the polls. Republicans are privately gleeful, really believe rationing inequities plus street-corner criticism of the way the war is being run place them in a strong position to wrest House of Representatives control from the Administration this fall.

Tin can conservation order promulgated by War Production Board contemplates adequate canning facilities for essential crops this year. But canners of soups and specialties are out of luck. They must drastically curb output or find new containers. WPB, incidentally, has given no consideration to cans for 1943 crops—they feel labor scarcity will so curtail next year's harvests as to make the preserving problem inconsequential.

The Postmaster General is to have a new auto despite the shortage. He already has two official limousines but wants a new one. So the House has earmarked $1,800 for that purpose.

Donald Nelson is finally talking Jones and Arnold straight in the eye. Federal Loan Administrator Jones has been overly cautious about dishing out funds, too unbending to fly the war kite. Busy Assistant Attorney General Arnold has been enforcing antitrust laws with prewar antiquity. Nelson has had them on the carpet, outlined his ideas, and suggested they go to the President for instructions if not ready to concur. It can be safely wagered that Jones will now be less tight fisted and Arnold won't be so righteous about those sacred cows—the antitrust statutes.

Dehydrated food industry is being pressed by Army and British Purchasing Commission to fashion tasty foodstuffs that will please fighting men's palate. Concoctions to date, other than dried eggs, haven't proved very satisfactory for mass use. Demand will be enormous if dehydration chefs gratify the purchasing agents.

War plane costs will be hiked by induction of automobile plants into this industry. The wage scale in auto factories is higher than in the aircraft industry. Plane building knowledge of the auto makers is low. These elements combined are expected to be translated into more costly airships.

Treasury officials are trying to ride two horses at once and hope they won't fall between the animals. Defense savings bond sales spurted to a billion dollars in January. Secretary Morganthau with crossed-fingers is aiming at a ten billion dollar total for the year. He has his fingers crossed because of fear the March revenue reckoning may dampen the bond-buying spirit. Treasury hopes to overcome this in part by setting up state offices of paid ballyhoo artists.

Oil industry will fight, probably may defeat, a Treasury proposal to reduce the 27½ per cent of gross income deductible as depletion allowance. Such a slash might hike Federal revenue $80,000,000, would almost certainly complicate the petroleum supply situation. Oil state congressmen are forming lines to oppose any depletion allowance cut. They claim a reduction would mean the difference between profit and loss on countless small wells, that equipment would be pulled from these holes and sold or junked, and output curtailed. With Congress war conscious and already confronted by shortages of needed materials, this Treasury plan can't expect to find much popularity on Capitol Hill.

Wide World Photo

Anti-Trust Law Man Arnold told where to get off by Donald Nelson.

Insurance companies still wield a mystic influence in Washington. When Federal Loan Administrator Jones recently created an agency to protect tangible property from war loss, he christened it the War Insurance Corporation. Senator Francis Maloney from the insurance capital at Hartford demurred, said this wasn't quite fair to the private insurance industry. Thereupon Jones renamed his brain child the War Damage Corporation.

Tax-exempt securities already issued by states and municipalities won't be taxed this year by Congress. Now outstanding are such notes and bonds with an approximate $20,000,000,000 face value. Annual interest payments thereon mount past the $600,000,000 mark. Taxation of these would net the Government an estimated $200,000,000 yearly, and Secretary Morgenthau now wants to revoke their exemption. Congress won't agree, first, because of contract ethics, second, because of fear states and municipalities might be dangerously smeared with red ink by having to pay higher interest on future borrowings.

Federal Trade Commission is conducting an intensive investigation of reports radio networks are allowing rebates and high volume discounts to large advertisers. FTC scents Robinson-Patman Act violations. It's said the chains have been allowing rebates as high as 25 per cent, volume discounts as great as 50 per cent, to certain substantial advertisers. FTC is probing its jurisdiction. That's likely as far as the thing will go unless FTC confounds history by injecting itself into a really big row.

Supreme Court has gone all the way in setting up Congress as supreme over the states even on purely intrastate matters. All doubts of this were dispersed by its recent decision denying right of Alabama to seize packing stock from which renovated butter is made once the stock has been delivered to the processor. The court held the Federal Renovated Butter Act of 1902 placed supervision of renovated butter manufacture under the Secretary of Agriculture, therefore precluded state interference. The court ruled the state might seize packing stock en route to manufacturing plant or renovated butter sold in Alabama but not material definitely marked for commerce in manufacturing plant. Confiscation by the state of material in production would nullify Federal discretion over ingredients, said the court. A minority of four justices sharply criticised this holding as unwarranted invasion of states' rights.

Mother hen pooling of small plants to turn out war supplies is to receive more aggressive sponsorship under WPB. Past efforts in this direction have been lackadaisical. Now the idea is to have a thorough trial in the Connecticut munitions state where scores of small machine shops are available for the asking.

Small industry need expect no material aid from Congress. Legislation may, probably will be passed. But war production will remain paramount, won't be sacrificed to save the little fellow. Small manufacturers face the alternatives of getting into war production or essential consumer activities or going out of business.

Typewriter industry underlines the pressing need for coordination between WPB and Government agencies. The industry has been ordered to cut typewriter output deeply, perhaps as much as 40 per cent. But already the Budget Bureau has granted funds to various agancies for increased purchases of new typewriters. Some departments use a typewriter only three years before turning it in on a new one. Others work a machine successfully nine years. In the face of the sharp production curtailment it's obvious a formula imposing a uniform usage and conservation program on all Government people is in order.

Cellophane liners for containers as a substitute for tin are being assayed by WPB technologists.

Twenty Billion Dollars on the Spot

Market Effects of Possible Taxation of Income From State and Municipal Bonds

BY J. S. WILLIAMS

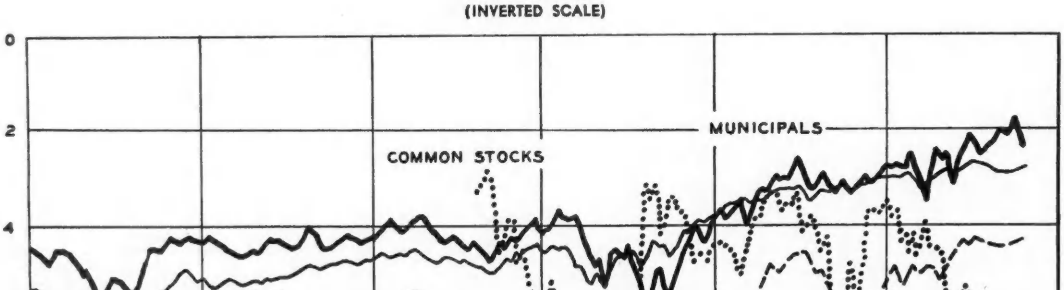
Secretary Morgenthau's recent declaration of intent to seek legislation which would enable the Government to tax income from outstanding and future issues of State and municipal bonds has created widespread market consternation and aroused speculation in financial circles about the possible effects of such action on other types of securities.

The Secretary's suggestion caused an immediate decline in quotations for the more active municipal issues, and a temporary withdrawal of bids as dealers and investors sought to appraise the latest taxation threat. Treasury obligations recovered moderately following the subsequent statement by Mr. Morgenthau that he did not refer to Federal bonds, inasmuch as "there is a contract standing between the Federal Government and the holders of (its) tax-exempt securities."

The action of the market for State and municipal issues indicates that the taxation threat remains a live problem, has encouraged wider market swings than are customary in this relatively stable investment field, made operations by dealers considerably more difficult, and already increased the cost of financing to certain municipalities. Other factors of course are influential, such as the soaring Government expenditures and debt, unorthodox schemes of Federal financing, and war developments; but it seems clear that the State and municipal market will not quickly shake off the clammy threat which overhangs it until a decision is reached one way or the other that definitely clarifies the tax status of tax-exempt issues.

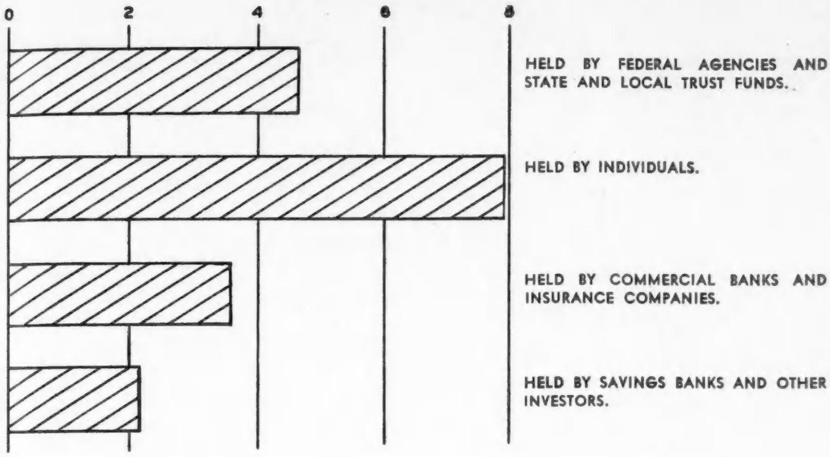
As Secretary of the Treasury, Mr. Morgenthau naturally is charged with responsibility for raising as much revenue as possible for the Government, and his contention is that income from tax-exempts must be taxed because of the war and to prevent wealthy individuals from avoiding their just share of taxes levied on indi-

BOND YIELDS
(INVERTED SCALE)



MUNICIPALS FROM "BOND BUYER"—OTHERS FROM MOODY'S

MUNICIPAL BONDS



vidual incomes. An estimated $200,000,000 in taxes now uncollectible would thus accrue to the Treasury—or so he says. It therefore is of interest to examine the approximate distribution of State and municipal obligations and the basis of the tax immunity which thus far has prevailed.

Obligations of States, municipalities, and political subdivisions are presently outstanding in the approximate amount of $20 billion, on which purchasers already have paid a hidden tax in the form of lower interest yields. As of June 30, 1940, Treasury estimates indicate that around $4.6 billion of such issues were held by Federal agencies, and state and local trust funds, while some $3.6 billion were held by commercial banks, another $2.1 billion were held by insurance companies, and a large additional sum by other taxable corporations. The Treasury study shows that only some $7.9 billion were in the hands of individuals, including both small as well as wealthy investors. Consequently, the argument that such securities offer a tax-free haven for wealthy individuals does not stand scrutiny when compared with the known fact that most of such bonds are held by sinking funds, public trust funds, banking media, insurance companies and other depositaries which are not affected by high personal surtaxes. This conclusion is reinforced by Treasury studies of estate tax records which show that only 5.63 per cent of the capital in large estates is invested in State and local securities.

The Bond Buyer, a well-known disseminator of municipal news, points out that Mr. Morgenthau's estimate of a $200 million revenue loss to the Government because of tax exemption could only be true "if we assume that $10 billion of these bonds are held by individuals subject to a 50 per cent surtax (assuming an average interest rate on the bonds of 4 per cent)." The Treasury's estimate therefore seems erroneous, or at least calls for explanation.

Of course, this is not the first time that tax immunity has been threatened; almost every session of the Congress in recent years has provided the occasion for introduction of bills which would outlaw tax exemption. In 1940, the Senate defeated such an attempt by the Treasury because of opposition from State and municipal governments and because of respect for the constitutional guaranty of sovereignty of the States. Opposition to the current proposal is not coming just from the so-called money interests, but from politicians and public officials all over the country. Sentiment seems to be against it among the twenty-five members of the important House Ways and Means Committee, which must be won over if the Treasury is to secure appropriate legislation. Informed opinion as to the views of committee members places 23 members reputedly against taxation of outstanding issues, and 17 against taxation of future issues.

Perhaps the clearest recent exposition of the doctrine of reciprocal tax immunity under the Constitution is that made last December by Austin J. Tobin, assistant general counsel of The Port of New York Authority and secretary of the Conference on State Defense, which may be summarized as follows: Certain powers were reserved to the States and cities under the Constitution, and local government is the basis of democracy. The discussions which centered around adoption of the Constitution emphasize that the reason for the existence of a Federal Government was to preserve and protect the democratic government of States and their cities. It was insisted as a condition of ratification that guarantees of democracy—reservation to the States and to the people of all powers not expressly conferred to the Federal Government—be incorporated in the Constitution. The doctrine of reciprocal tax immunity is as implicit as the doctrine of implied power of the Federal Government. In successive revenue acts, the Congress has affirmed the immunity of local bonds from Federal taxation by reinacting statutory exemptions. If the Congress has power to tax State and municipal bonds, it has power to control State and municipal financing. Lacking independent control of its own financing, no government can be construed to be a free and independent state. If no longer free and independent, local self government is at an end. Local self government is the basis of political democracy, and is destroyed by centralization of power, which inevitably leads to oligarchy and abuse.

The doctrine of reciprocal tax immunity has been repeatedly upheld by the Courts, and its revocation by simple statute would not seem readily attainable even now. In 1938, the Department of Justice took the position that the Federal taxing power is supreme and includes the power to tax all the functions and instrumentalities of the States; that the power of the Federal Government to tax income "from whatever source derived" permits no exceptions; and that the principle of immunity protects the Federal Government from taxation by the States, but does not protect the States from Federal taxation. According to Mr. Tobin, this study has been the basis of assertions by Federal departments

not only of "the right to tax the interest of State and municipal bonds, but to tax the bonds themselves, the payrolls of the States, and, indeed, the very revenues of State agencies."

No one contends that the Federal Government has entered into any contract with holders of State and municipal bonds to refrain from taxing income from such issues. Such contracts do exist between the State or municipality which issued such securities and the purchasers. David M. Wood, an authority on legal questions affecting municipal securities, pointed out in 1934, when the question of possible alteration of tax status also arose, that "the reason taxes are not now levied by Congress, upon income derived from such securities, is only because of the fact that the taxing power of Congress does not extend to that subject, and not because of any contract made by the United States, with the holder of the bonds, to refrain from taxing them, or the income derived from them." Clearly the people of the United States have the right by constitutional amendment to grant such power to the Congress, but authorities on legality and other problems relating to issuance of State or municipal securities hold that, until such a constitutional amendment is obtained, the Congress has no power to tax the income from bonds issued by the States, municipalities, or political subdivisions. If this be true, the ability to obtain an additional possible $200 million in revenues by what many citizens would construe as subterfuge would hardly offset the implied loss of confidence in the Government.

No attempt is here made to predict what action if any may be taken with respect to Mr. Morgenthau's tax proposal, but deductions as to the possible effects of elimination of the tax exemption feature are permissible. An interesting aspect of the current fracas is the attention which has been directed to local Housing Authority bonds, which are expressly exempt from Federal taxation by Act of Congress. The language of Section 5 (e) of the United States Housing Act, as amended, exempting such issues "from all taxation now or hereafter imposed by the United States," certainly appears capable of but one interpretation. It seems clear that Mr. Morgenthau's taxation scheme could not be applied in this instance without calling outstanding bonds and refunding them with taxable issues yielding higher returns.

Estimates of the cost of possible removal of the tax exemption privilege to States or municipalities undertaking subsequent financing have shown considerable variation. The late Morris Tremaine, who for years guided the fiscal destinies of the State of New York, estimated the increased cost for New York State at 3/4 of 1 per cent. Comptroller McGoldrick of the City of New York placed the increased cost for the city at 1¼ per cent.

Suppose we assume that a hypothetical municipal bond bearing a 3 per cent coupon rate and maturing in 20 years is currently selling at par on the basis tax exemption. Suppose we also assume that the cost estimates mentioned in the preceding paragraph indicate approximately the readjustments in yield basis which would materialize in event income on municipals should be taxed. The 3 per cent twenty-year bond selling at par would theoretically decline to 92.85 to yield 3½ per cent and to 86.32 to yield 4 per cent. A 3 per cent thirty-year bond selling at par would decline to 90.75 to yield 3½ per cent, and if the yield basis were to be 4 per cent the price would be 82.61.

The foregoing explanation of the possible market effects of taxation of tax-exempts is obviously oversimplified, for a number of municipal bonds with high credit ratings are quoted on yield bases not much different from the yields available on best grade corporate bonds, income from which is of course taxable. As an example, New York City 3s, due June 1, 1980—the famous traction unification issue—are currently selling around 102½ to yield about 2.87 per cent. The tabulation of corporate bonds, preferred and common stocks included in this article lists a couple of high grade corporate bonds yielding 3.24 per cent in one instance and 2.64 per cent in the other. Increases in yields and declines in prices probably could be anticipated, however, among high grade municipal bonds such as the New York State 1¾s, due April 19, 1958, which are currently quoted on a 1.45 per cent basis, which figures a price of about 104⅜.

Removal of the tax exemption feature from State and municipal bonds might well create a broader

(*Please turn to page 570*)

Comparative Yields on a Tax Equivalent Basis

Surtax net income—in thousands of dollars.
(Figures in parentheses show combined tax in varying surtax income brackets)

	Yield or Current Return	$4 to $6 (17%)	$10 to $12 (29%)	$14 to $16 (36%)	$20 to $22 (45%)	$50 to $60 (61%)	$100 to $150 (69%)	$500 to $600 (77%)
Corporate Bonds								
Boston Edison 1st 3¾s, 1963	2.64%	2.19%	1.87%	1.69%	1.45%	1.03%	0.82%	0.61%
Paramount Pictures Deb. 4s, 1956	4.00	3.32	2.84	2.56	2.20	1.56	1.24	0.92
Union Pacific Ref. 3½s, 1980	3.24	2.69	2.30	2.17	1.78	1.26	1.01	0.75
Preferred Stocks								
American Smelting $7	4.89	4.06	3.47	3.13	2.69	1.91	1.52	1.12
Consolidated Edison $5	5.88	4.88	4.17	3.76	3.23	2.29	1.82	1.35
North American Co. $2.875	5.69	4.72	4.04	3.64	3.13	2.22	1.76	1.31
Virginian Railway $1.50	5.17	4.29	3.67	3.31	2.84	2.02	1.60	1.20
Common Stocks								
Cluett, Peabody	8.95	7.43	6.35	5.65	4.92	3.49	2.77	2.06
Humble Oil	3.63	3.01	2.58	2.32	2.00	1.42	1.13	0.83
Loew's Inc	7.69	6.38	5.46	4.92	4.23	3.00	2.38	1.77
Penney, J. C.	7.35	6.10	5.22	4.70	4.04	2.87	2.28	1.69
Texas Co	6.75	5.60	4.79	4.32	3.71	2.63	2.09	1.55
United Fruit	6.45	5.35	4.58	4.13	3.55	2.54	2.00	1.48
Average Yield *200 stocks	*7.3	6.06	5.18	4.67	4.01	2.85	2.26	1.68

*Moody's computation of average yield at close of 1941 on basis of then indicated dividend rates.

What 1941 Reports Disclose for 1942

PART II

BY WARD GATES

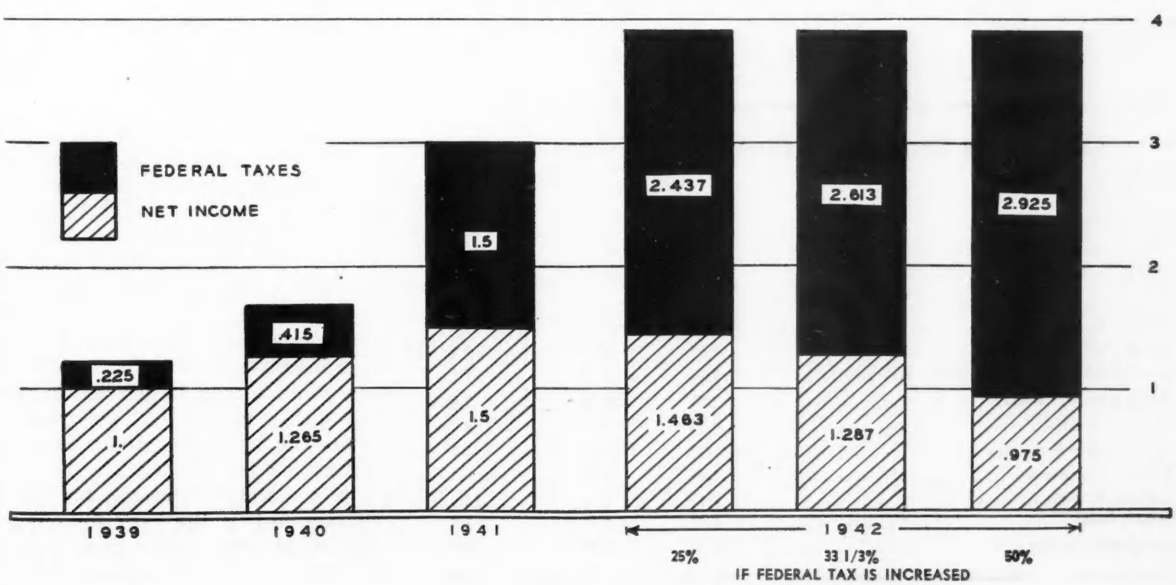
SOME years ago there was a premature gag about the fellow who, after struggling with his income tax form, wrote to the Government suggesting that it take his income and let him keep the tax. I say premature, because it would be far more apt today.

A case in point is the annual report of the Allegheny-Ludlum Steel Corporation, just come to hand. This company earmarked $9,700,000 for Federal income and excess profits taxes, which left it with earnings of but $5,062,709 available for dividends, surplus, re-investment in new facilities, etc.

Yet at that, the owners of this highly active enterprise have no cause for dissatisfaction. Federal taxes took only approximately 65 per cent of indicated total operating profit. True, for most corporations—not so hard hit by excess profits taxes—the percentage is considerably smaller; but, on the other hand, for others it is substantially bigger. For instance Bethlehem Steel, on whose report we commented in the first article of this series a fortnight ago, had to fork over about 72 per cent of its indicated 1941 operating profit to Uncle Sam.

And wait until you see the United Aircraft report. It's not in yet, but we have an illuminating sample in a special statement recently issued for the 10 months ended October 31. Out of reported earning power of $59,655,000 before deduction for Federal taxes, the taxes took approximately 79 per cent, leaving some $12,510,000 available for dividends and other purposes. However, the figure of $59,655,000 was arrived at after deducting a special reserve of $4,500,000 for "transformation from defense production to peace-time economy." The company can do that in its accounting to stockholders, but can't apply this deduction from operating profit in figuring its tax liability. Tuck that deduction away in your mind for the present, as we shall have some observations to make about it hereafter.

OPERATING PROFIT OF 200 INDUSTRIAL COMPANIES
(BILLION DOLLARS)



To get back to the sample report with which we started, the owners of Allegheny-Ludlum Steel have additional reason for satisfaction in that 1941 net income per common share was nearly 39 per cent larger than for the preceding year, or $3.86 as compared with $2.78. The great majority of steel companies did not fare nearly so well. This is a relatively small enterprise, as steel companies go. We are citing it primarily because from the investor's point of view there are some pertinent conclusions to be drawn from it and which have application to other situations.

In a period of pronounced expansion in industrial activity, a well-managed, flexible manufacturer of small or medium size nearly always will experience much more impressive percentage gains in earning power than giant competitors. Adjustments to new conditions are more readily and quickly made. Since capacity is relatively small to begin with, additions which don't seem large in dollar total of investment nevertheless make a very marked percentage difference in the volume of business that can be handled. The percentage increase in Allegheny-Ludlum's capacity in 1941 was among the largest in the industry and will be so again this year.

It cannot be too strongly emphasized that substantially increased volume is the only possible offset that any company can have against coming higher Federal taxes. And at this time when every investor is deeply concerned over Federal taxation and its relationship to future corporate profits and dividends, it is worth while to comment briefly on the bar charts which accompany this article.

Of course, we make no attempt to forecast the legislation that Congress will write. If new *methods* of taxation should be adopted, the results for security owners would have to be re-appraised accordingly. The present consensus at Washington is that Congress probably will retain the present corporate tax principles but with substantially higher excess profits tax rates, possibly with lower exemptions and also possibly with a rise in normal corporate income tax rates.

Don't let these seeming complexities confuse you. What concerns you as an investor is the total profit, before Federal taxes, of your company, the dollar total of Federal taxes that must be deducted from this figure, and the remaining sum, which is net income available for dividends or other corporate purposes. A company may pay so much in normal income tax and an additional sum in excess profits tax. The ratio of the dollar total of Federal taxes—however they are calculated— to profit before taxes is what accountants call the "effective" tax rate for the particular company. This varies considerably from company to company, depending chiefly on differing degrees of liability under the excess profits tax. However, composite figures for a number of industrial companies serve to show the way the wind is blowing and provide a valuable over-all perspective.

Volume and Profits

Our charts bring home three facts: (1) an enormous increase in Federal taxes over the past several years; (2) ability of the average large industrial corporation to meet the higher levies and still earn quite satisfactory net profits; (3) that what made this possible was sharp increase in profits before taxes, due to greatly expanded volume.

This graphic picture is based on earnings statistics, plus certain estimates, for 200 industrial companies and we can assure you that it is closely accurate. For simplicity and economy of language, let us define profits before Federal taxes henceforth as gross profit and the remainder as net profit. It will be seen from the first bar in the chart that in the pre-war year 1939 these 200 corporations had gross profit of $1,225,000,000, paid $225,000,000—or a bit less than 19 per cent—in Federal taxes and had net profit of $1,000,000,000.

In 1940 the effective tax rate jumped to about 26 per cent, but gross profit had spurted to $1,680,000,000, with the result that despite a tax bill of $415,000,000, net profit was $1,265,000,000.

For 1941 the effective tax rate soared to approximately 50 per cent, but gross profit jumped to $3,000,000,000. Federal taxes came to the astounding figure of $1,500,000,000—almost as much as the gross profit of the preceding year—yet the net profit again increased. Indeed, it was $1,500,000,000, according to our preliminary estimates, and the actual figures when all reports are available probably will show it to have been nearer $1,600,000,000 and thus above the level of 1929.

The last three bars rest upon a set of assumptions formulated solely for a perspective on the future. First, we assume that gross profit of these 200 companies for 1942 will increase 30 per cent over 1941 and we think that is a conservative allowance. In 1941 an increase of 27 per cent in industrial activity, as measured by the Federal Reserve Board index, was translated into an increase of more than 78 per cent in gross profit of these companies. This year the expansion in industrial activity figures to be approximately 15 per cent. That figure, plus a rough allowance for higher operating cost, is the basis for our assumption of 30 per cent gain in gross profit or only about 38 per cent as much

Companies Showing Declines in 1941 Earnings

Company	Earnings 1941	Earnings 1940	% Decline
American Chicle Co.	8.13	8.42	3.4
American Gas & Electric Company	2.72	2.99	9.0
Bigelow, Sanford	6.01	6.11	1.5
Bristol-Myers Company	3.67	3.73	1.6
Canada Dry	0.46	0.78	41.0
Chicago Flexible Shaft	8.41	9.16	8.0
Consolidated Edison Company of New York	2.00	2.23	11.5
Helme, Geo. W. Company	5.06	5.15	2.0
Household Finance	6.11	7.11	14.0
Industrial Rayon Corporation	3.04	3.15	3.6
Kress, S. H. & Company	1.97	2.08	5.3
Lorillard, P. & Co.	1.44	1.69	14.8
Noblitt, Sparks	4.61	4.65	1.0
United States Tobacco	1.58	2.08	24.0

Companies Showing Increases in 1941 Earnings

Company	Earnings 1941	Earnings 1940	% Increase
Acme Steel Company	9.65	6.43	50.1
Allegheny Ludlum Steel	3.86	2.78	39.0
Atlas Powder Company	6.13	5.71	7.4
Bell Aircraft	5.55	1.14	385.0
Bendix Aviation Corporation	6.41	4.42	45.0
Bliss, E. W.	5.63	3.88	45.0
Case, J. I. Company	13.23	3.45	284.0
Commercial Credit Company	4.65	4.23	9.9
Continental Steel Corporation	5.46	3.23	69.0
Crucible Steel Company	12.95	10.24	26.5
Deere & Company	4.03	3.33(a)	21.0
Du Pont, E. I. de N. & Co.	7.50	7.23	3.7
Endicott Johnson	4.90	3.20	53.0
General Cigar	2.78	2.15	29.0
Goodyear Tire & Rubber Company	4.68	3.44	36.0
International Harvester	5.87	4.11(a)	43.0
Johns-Manville Corporation	6.66	6.35	4.9
Kroger Grocery & Baking Company	2.71	2.51	8.0
Lehigh Portland Cement Company	2.78	2.41	15.4
McCrory Stores	2.24	2.05	9.0
Monarch Machine Tool	7.14	5.63	27.0
Murphy, G. C. Company	7.20	6.58	9.4
Nash-Kelvinator	0.21	0.02	950.0
National Steel Corp	7.75	6.83	13.5
New Jersey Zinc Company	4.88	4.19	16.5
Ohio Brass	2.58	2.07	25.0
Owens-Illinois Glass Co	3.40	2.71	25.5
Plymouth Oil Company	1.42	1.38	3.0
Pure Oil Company	2.86	1.21	136.4
Republic Steel Corporation	3.88	3.30	17.6
Safeway Stores, Inc.	4.91	4.76	3.2
Simonds Saw and Steel	4.89	3.12	57.0
Standard Oil Kansas	2.93	1.42	106.0
United States Rubber Company	4.86	3.58	35.8
Vultee Aircraft	2.95	0.36	720.0
Western Auto Supply Company	4.26	3.88	9.8
Woolworth, F. W. & Company	2.69	2.48	8.5

(a)—October 31.

as the 1941 gain.

Thus we estimate gross profit of $3,900,000,000 for 1942, and the total height of each of the last three bars represents that figure. In the first of these three bars we allow for an increase of 25 per cent in effective tax rate or 62½ per cent. That would leave net profit of $1,463,000,000 or only a trifle less than for 1941 and, with the exception of 1941, by far the highest profit since 1929. In the next bar we assume tax increase of 33 1/3 per cent, carrying effective rate to 66 2/3 per cent. That would leave net profit of $1,287,000,000 or slightly more than in 1940; and a figure exceeded, over the past twenty years, only in the years 1928, 1929 and 1941. In the last bar we allow for increase in the effective tax to 75 per cent, or an increase of 50 per cent over 1941. That would certainly seem to be an extreme allowance, yet it would leave indicated net profit of $975,000,000 or a trifle below 1939 and not much out of line with net profit in such years as 1925, 1927 and 1930.

To the extent that earnings are a stock market factor —and they are not the only one today—it certainly appears that pessimism has reached extraordinary extremes. On the other hand, as we have pointed out before, there are good reasons why, out of any given earnings, the percentage distributed in dividends must be expected to average lower than in peacetime. That brings us back to United Aircraft.

The President of this war baby argues for a fundamental change in the approach to the profit problem in time of war. The transition from peace business to swollen war business involves expenditures which are valid cost items and are so regarded by the Government for tax purposes. But the post-war transition back to peace business will also be an expensive proposition—especially to workers and stockholders. Why is not a fair allowance for this a valid deduction from gross profit, allowed by the Treasury in calculating taxes? But such a change in the tax law is improbable. Meanwhile, the company makes the $4,500,000 post-war reserve deduction anyway in the accounting for stockholders, but pays full taxes on this as well as all other gross profit. It might be added that in relation to any possible post-war stabilization of dividends and employment, such a sum is a drop in the bucket. It is interesting as emphasizing that managements, as well as investors in the open market, look with distrust upon war-time earning power.

But outright war stocks are not the only ones that sell on low price-earnings ratios on the reasoning that high earnings are of indeterminate duration and continuity. Quite a few non-war stocks had handsome earnings gains in 1941 to which the market is not responsive. You have to look behind the figures. In some cases they represent, in greater or lesser degree, water over the dam. That is to say, that on the average of 1941, many companies had more favorable operating conditions than can be expected on the average of 1942. War casualties in the stock market are an old story, but have not had time to show up in more than a moderate number of annual earnings reports. There was a carry-over pretty much of business-as-usual in 1941 earnings of the majority of companies.

For instance, J. I. Case earned $13.23 per share for the year, against only $3.45 in 1940 but is priced at only 5 times these earnings today. The farm equipment industry is more essential than most—but less so than aircraft, shipbuilding, machine tools, ordnance, etc. Because of shortage of metals, 1942 volume will be moderately less than in 1941. A moderate reduction in volume, together with higher taxes, would reduce net profits disproportionately. And it would take relatively small decline in dollar total of Case earnings to reduce per share results geometrically, since there are only 192,000 shares outstanding.

Tire company earnings constitute another example of 1941 figures which don't (*Please turn to page 572*)

Examining Basis For Improved Market Status of Rail Securities

Which to Hold — Which to Avoid

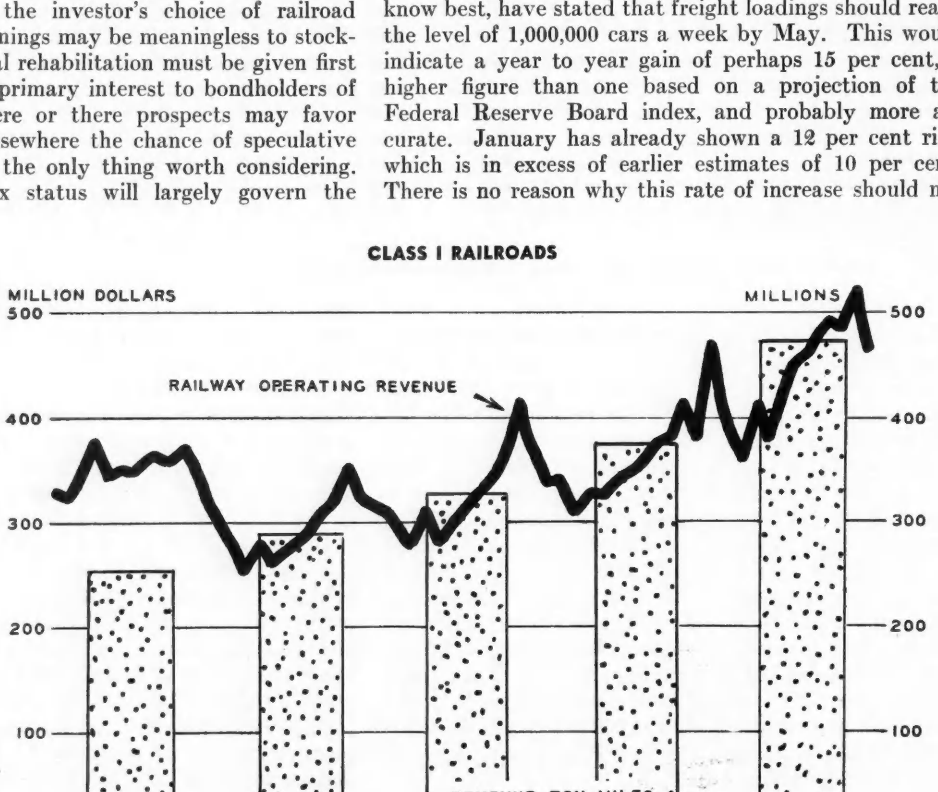
BY B. M. FULLERTON

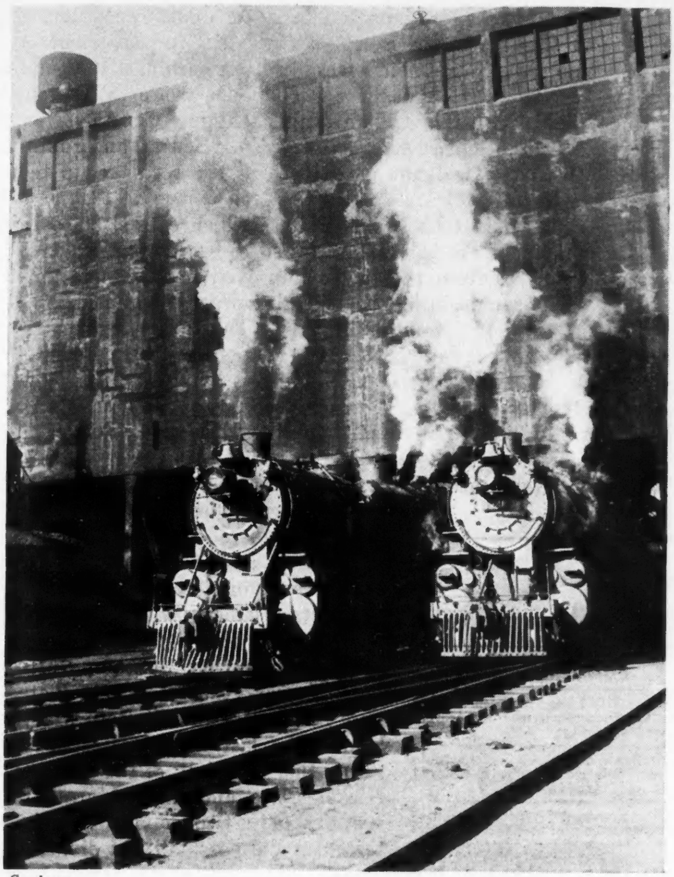
The outstanding facts in the current rail situation are rising revenues, strengthened finances and greater ability to withstand the ravages of a new depression. But there is no one rule by which they can be applied to all leading systems. The first and essential step, an estimate of 1942 earnings, becomes a guess in the face of war-time disruption of civilian business, elimination of much competition, tax uncertainties, wage increases and the extent of possible advances in freight rates.

Beyond this is a wide range of further diverse considerations affecting the investor's choice of railroad securities. Rising earnings may be meaningless to stockholders where financial rehabilitation must be given first consideration, but of primary interest to bondholders of the same roads. Here or there prospects may favor higher dividends. Elsewhere the chance of speculative appreciation may be the only thing worth considering. Determination of tax status will largely govern the attraction of the securities of some of the recently reorganized companies. Investors may shy away from some of the higher grade bonds because of the uncertainties over what may happen to leading systems with the return of peace.

The appraisal of rail prospects faces difficulties with the very first step. Forecasting a rise in revenues is easier than foretelling its extent. Normally a prophecy can be tied to a projection of the Federal Reserve Board index of industrial production, but this usually reliable guide, though recently revised, is not perfect for a war economy and cannot be fully relied on today, when normal conditions, governing taxes, wages, rates, costs and competition no longer exist.

Perhaps the most accurate method of arriving at an acceptable approximation of 1942 earnings is to start with the calculations of some of the Government agencies. Certain of these, which should be in a position to know best, have stated that freight loadings should reach the level of 1,000,000 cars a week by May. This would indicate a year to year gain of perhaps 15 per cent, a higher figure than one based on a projection of the Federal Reserve Board index, and probably more accurate. January has already shown a 12 per cent rise, which is in excess of earlier estimates of 10 per cent. There is no reason why this rate of increase should not





Gendreau

be maintained for a large part of the year, since, in addition to the acceleration of the arms program, the roads will be forced to take over most of the freight formerly carried by coastwise shipping and, later, probably to absorb some of that now handled by trucks. Revenue gains will be even larger, since revenue ton-miles are expanding at a faster rate than carloadings, and they will be further augmented in the event of a rate increase.

Translating revenue gains into earnings is a more difficult matter. One method would be to take the approximate 45 per cent "conversion ratio" of 1941 and apply it to estimated 1942 revenues, admitting that the results may be distorted by rising taxes, maintenance costs, wages and freight rates. Even this, however, is only a beginning in solving the investor's problem. Perhaps the most direct answer from his standpoint is to make the reasonable assumption that net income of Class 1 roads, after whatever adjustments may be necessary, will exceed indicated results of approximately $500,000,000 in 1941, and proceed with the investment analysis from there.

Of the many considerations which affect 1942 investment programs, perhaps the one that should be given greatest importance is the necessity for financial rehabilitation facing almost every system in the country. This applies whether the road came through the depression successfully, is in receivership or reorganization, or is in a marginal position. Its cause is readily seen when the capital structure of the country's railroads is examined in the aggregate.

Latest figures on total capitalization are those for 1939. At the end of that year funded debt outstanding of Class 1 roads was $9,704,000,000, compared with capital stock of $8,149,000,000 at par or stated value. The ratio, while perhaps satisfactory for a growing industry, becomes unfavorable if market, rather than par value of securities, is compared. While improved to some extent by debt retirements or completed reorganizations in the interim, it obviously is excessive for an industry whose long range future is in doubt.

Not all roads, of course, are in marginal position. Strong systems like the Pocahontas Coal roads, Norfolk & Western, Virginian, Chesapeake & Ohio, and other scattered major rails like Union Pacific, Atchison and Louisville & Nashville are not under the necessity for taking the same precautions as some others. Among these the necessity for financial rehabilitation is not usually of sufficient importance to shape investment policy. Even so, in most cases, the debt structure is relatively heavy, and under somewhat different conditions might cause embarrassment.

The necessity for debt retirement is most marked, and its meaning most significant for investors, in the marginal roads, particularly those with heavy near-term maturities. In many instances the present strong rise in revenues, cash holdings and earnings is providing a badly needed opportunity to eliminate obligations which might otherwise soon have caused trouble. Southern Pacific has obligations of around $96,000,000 maturing between now and 1946, but even if earnings begin to drop after this year, it has so strengthened its finances as to be reasonably sure of effecting their repayment. Baltimore & Ohio has $50,000,000 of 4 per cent notes due in 1944, part of which are pledged, together with about $70,000,000 Reconstruction Finance Corporation loans payable in the same year. Its ability to avoid bankruptcy is still open to question, but a somewhat improved rate of earnings might solve the problem. New York Central has some $30,000,000 maturing in 1946. Following a consistent policy of debt reduction, the company has retired more than $145,000,000 of funded debt since 1932 and has reduced its interest charges by at least $9,500,000. The 1946 maturities should present no difficulty, and the probability that later obligations, including the $40,033,200 3¼s of 1952, can be repaid is being greatly strengthened.

Roads Which Might Buy-in Bonds

Other roads with near-by maturities are the Delaware & Hudson, Bangor & Aroostook, Maine Central, Atlantic Coast Line, Lehigh Valley and Southern Railway. In some of these, such as the Southern Railway and Atlantic Coast Line, payment of the maturities seems certain. In others, including the Maine Central, a plan acceptable to bondholders can probably be worked out. In certain others the problem may prove more difficult.

In all cases, however, the primary consideration is the impetus to debt retirement given by the present emergency. Representative instances of what this means to different roads are given in the accompanying table. It is worth noting that several roads are in position to pursue a course of open market purchases calculated to reduce the size of the obligation and provide a better background for meeting the maturity when it falls due. Such instances include the Baltimore & Ohio, Atlantic Coast Line, Lehigh Valley, Maine Central, New York Central, Southern Pacific and Southern Railway.

From the investor's standpoint, the merit of this course is that it not only supplies the market support for the issues, but also that, if consistently applied, it provides for a steady strengthening of the position of the later maturities. The most attractive bonds of this type are the medium grade issues which are fairly close to the maturity date. Stocks of these companies with one or two exceptions, like Atlantic Coast Line, receive no direct benefits, except a consistent improvement in their equity position. Despite large earnings, the common stocks of Baltimore & Ohio, Delaware & Hudson, Illinois Central, Lehigh Valley, Maine Central, New York, Chicago & St. Louis, New York Central and Southern Pacific will not participate in the recovery to the extent of receiving dividends. Even New York, Chicago & St. Louis (the Nickel Plate), which earned $30.89 a common share in 1941, is limited to whatever advantage it derives from the road's improved financial position.

The same considerations which provide a considerable measure of attraction for the bonds of many of the marginal roads detract from the appeal of their preferred stocks. Where preferred dividends have been paid consistently, their continuance should be assured under present conditions and market values can be judged in accordance with earnings trends. Elsewhere possibilities of larger income are limited to preferred stocks with dividend arrears or to the one or two instances where dividends are not cumulative and accordingly could be increased or decreased.

Preferred stocks with accumulations include the Bangor & Aroostook, Kansas City Southern, Missouri-Kansas-Texas, Nickel Plate, Pere Marquette and Western Maryland. The last may increase payments this year, but, of the rest, the Nickel Plate and Pere Marquette are the only two having any interest on the possibility of dividend action. The spectacular rise in net income of the New York, Chicago & St. Louis has permitted prepayment of the 1946 bond maturity and should provide the cash resources for a distribution on the preferred before the year end. Pere Marquette's recovery may be temporarily upset by conditions in the automotive field, but more intensive war production in its territory should restore earning power to a level sufficient to justify a sizable payment against arrears of $21.25 on the $5 prior stock. Elsewhere the necessity for financial reconstruction will prevent any action.

Among the non-cumulative preferreds, two which hold forth promise of resumption or higher dividends are Southern Railway and Gulf, Mobile & Ohio. Rehabilitation of finances is expected to receive primary consideration in the case of Baltimore & Ohio and Illinois Central and prevent resumption of payments for an indefinite period. Southern Railway will probably spend most of its available cash in making open market purchases of

(*Please turn to page* 571)

Favored Railroad Securities

Bonds

Issue	Range 1941-42	Recent Price	COMMENT
Boston & Maine Income 4½s, 1970	43 -18⅝	42	$67 in interest per $1000 bond has been declared payable May 1. Furthermore, road has actively bought this issue in the market.
Chi. Mil. & St. Paul Gen. E 4½s, 1989	48 -30¼	46¼	Study now under way to determine extent of possible interest payments. Substantial distribution believed justified by cash resources and earnings.
Del. & Hudson Ref. 4s, 1943	61¼-45½	58¾	Strong earnings improvement suggests that satisfactory plan may be worked out for meeting this maturity.
Gulf Mobile & Ohio Inc. 5s, 2015	59 -36	56	Further debt reduction is expected in 1942. Income interest, payable April 1, should be earned by a wide margin.
Lehigh Valley Gen. 5s, 2003	40⅛-19½	37¼	Rising cash and prospective elimination of bank debt suggests road may pay part of deferred interest and initiate open market purchases of bonds over the intermediate term.
New York Central cv 3¼s, 1952	67½-45	58½	The approximately $20,000,000 remaining obligations due this year are well provided for and the company is in good position to expand its debt retirement program.
Southern Pacific Sec. 3¾s, 1946	86 -48¾	84¼	Payment of remaining bank loans is assured and funds should be available for further retirement of near-by maturities.
Wisconsin Central 1st Gen. 4s, 1949	47¾-27	44½	Improved earnings may permit resumption of interest payments pending reorganization. Hearings on interest petition scheduled for Mar. 9.

Preferred Stocks

Issue	Range 1941-42	Recent Price	COMMENT
Gulf Mobile & Ohio	29⅜- 9	27	Increased earnings suggest a possible increase to the full $5 dividend rate. Dividends become cumulative in July.
New York Chicago & St. Louis	51 -25	49	Possibilities of payment on the preferred are strengthened by the elimination of 1946 maturities, but may temporarily be delayed pending replacement of cash expended in retiring bonds and notes.
Southern Railway	36½-13½	33	A token payment on the preferred is regarded as possible, although debt retirement will get first call

Common Stocks

Issue	Range 1941-42	Recent Price	COMMENT
Atchison Topeka & S. F.	36¼-18	34	The $1 already declared this year and strong earning and finances suggest that 1942 distributions may exceed the $2 paid last year.
Atlantic Coast Line	28⅛-13½	24½	Dividend policy will continue conservative but substantially strengthened cash holdings may permit an increase in the dividend rate.
Texas & Pacific	14 - 5¾	10	Has no near-term maturities and improving earnings outlook might provide background for common dividend.

1942 Special

Security Re-Appraisals and Dividend Forecasts

PART 3

Industrial volume and profit trends, with outlook and ratings for individual. Steels—Building—Metals—Liquors—Mail Order—Movies—Chain and Department Stores.

Total war has already brought drastic changes in American business, with widely differing effects upon individual industries and companies. The months ahead will bring further sharp changes.

It therefore cannot be too strongly emphasized that periodic re-appraisal of security holdings is absolutely essential if the investor is to have any hope of safeguarding accumulated capital and of maintaining both adequate and dependable income return. It is to that practical purpose that our 1942 security re-appraisals and forecasts are shaped in this and the following two issues of The Magazine of Wall Street.

The essential information, ratings and opinions offered on individual securities are presented as concisely as possible for the convenience of subscribers. Please note that we claim no power of clairvoyance. We carefully weigh the known factors, the apparent trends and the reasoned probabilities—but no one can predict the unpredictable. The surprises of 1941 necessitated revision of many earlier investment opinions and calculations, no matter how rationally they had been made. Similarly, unforeseeable developments no doubt will require future revision of some of the opinions and ratings presented in these issues. But we make it our business continuously to watch for the unforeseeable event—as well as to project the foreseeable—and to interpret its effect upon individual industries and corporations. In that sense each bi-weekly issue of our magazine constitutes a "re-appraisal." We therefore say candidly that you will get the maximum usefulness out of the service offered on following pages—and in the next issue—only by making use of our facilities continuously through the year.

In addition to our published material, you are invited and urged to use our personal inquiry department.

To meet new needs, several innovations are made in the material presented on individual securities. The average earnings of 1936-1939 and book value, presented in the first two columns of the tables, gives useful guidance as regards vulnerability to excess profits taxation, as explained in the footnotes. The higher the 1936-1939 earnings in relationship to current earnings—or the higher the book value in relationship to current market price—the more favorable is the tax position. In addition, we include a general tax rating as follows: a.—"Should be able to absorb higher taxes without undue difficulty." b.—"Not likely to be subject to heavy excess profits taxes." c.—"Higher taxes will probably reduce earnings." d.—"Higher taxes may imperil recent rate of dividend." e.—"Higher taxes may restrict dividend."

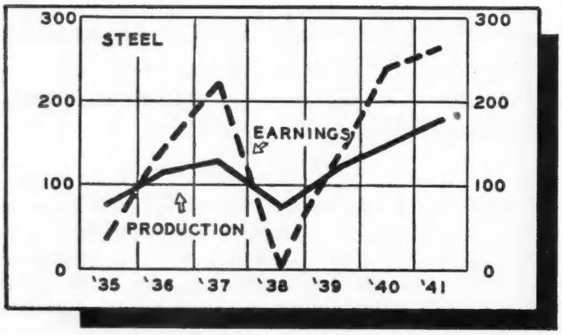
Note that the record of dividend paid in 1939 is a convenient remainder of normal distributions in a fair "peace" year. The key to our regular ratings of investment-market quality and earnings trends—last column in the table preceding comment—is as follows: A—High Grade investment quality; B—Good; C—Medium Grade; D—Marginal; E—Low Grade; while the accompanying numerals denote current earnings trends thus: 1—Upward; 2—Steady; 3—Downward. For instance, A1 denotes a high grade investment issue with an upward earnings trend and D3 a marginal issue with a downward earnings trend.

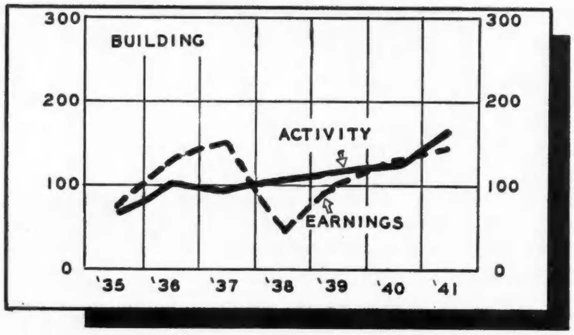
Selected issues which are recommended for safe income are denoted by a star symbol preceding the company's name; issues recommended for cyclical appreciation are marked with a dagger; and issues favored for both income and appreciation are marked with an asterisk. Timing of purchases for appreciation should accord with the general trend advice given in our regular market analysis in the forepart of each issue.

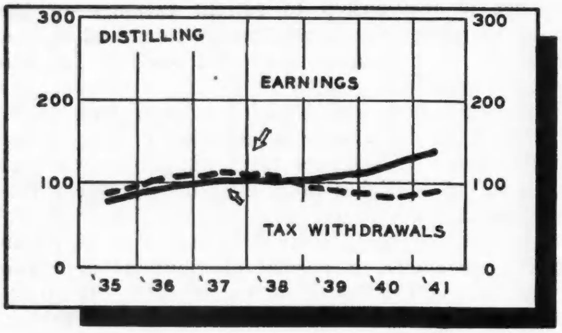
Presenting a Graphic Picture of Industrial Volume and Profit Trends as Defense Increasingly Takes Over Our Economy

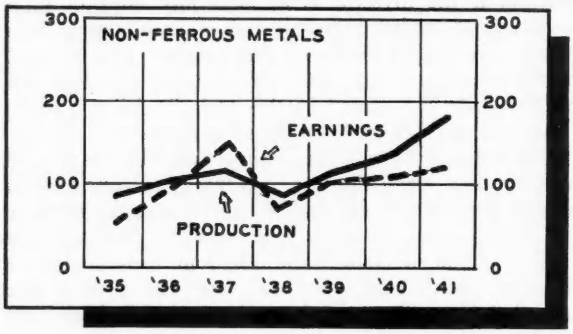
WAR ATLAS OF INDUSTRY

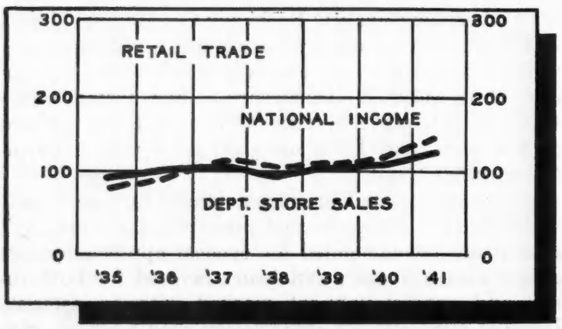
Indexes in these charts are based on 1935-39 as 100. The production indexes are taken from the Federal Reserve Board sub-indexes of industrial production. Other indexes are computed from representative groups of the industry. 1941 figures are estimates.

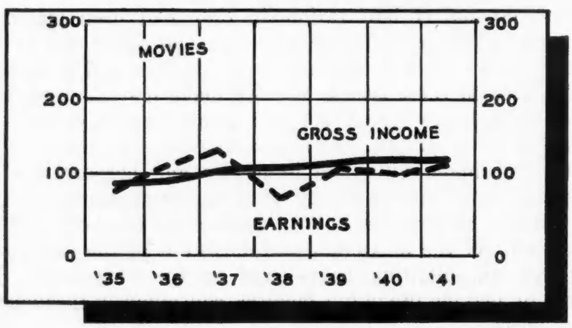












Lower Profits Likely For Most Merchandising Companies

1942 Volume Gains Will Not Offset Coming Higher Taxes

IN prospective effect upon merchandising enterprises, the changes incident to our all-out war effort will be both very pronounced and very diverse. The favorable side is that the 1942 purchasing power available for expenditure on consumer goods will be at a very high level, regardless of any probable increase in taxes bearing upon consumer spending. The adverse side consists of supply difficulties, rise in operating costs and inevitable further increase in corporate income taxes.

It is improbable that this year's volume gains, even in so-called soft goods, can be as large as those of 1941. The reasons for this conclusion are (1) heavy forward buying by consumers in the closing months of last year and in recent weeks—in anticipation of both higher prices and scarcities—represented a goodly total of trade volume borrowed from the future; (2) all of the trade lost through non-availability of durable goods will not switch to soft goods or semi-durable goods; (3) the higher prices now being increasingly realized will tend, as always, to check demand; (4) consumers this year will have to meet the sharply higher income taxes levied last year; (5) it is quite certain that in one way or another the Government will "mop up" a substantial slice of 1942 consumer purchasing power, whether through a general sales tax or a withholding tax or a compulsory defense-bond savings program or some combination of these.

In merchandising, as in all other fields of business, large rise in volume is the only adequate offset to higher operating costs and higher Federal taxes. On the one hand, as above noted, volume gains this year will be smaller than last; and on the other hand the *increase* in 1942 operating costs and taxes—especially the latter—will probably be greater than were these increases in 1941. It therefore follows that practically all merchandising concerns will have smaller profits this year than last—unless Congress goes much easier in the matter of higher corporate taxes than now seems probable.

Supply problems will become steadily more important from here on, although not acute for some time to come except in durable goods. Merchandisers wholly or largely dependent on durable items will be pretty much out of luck. This applies especially to stores dealing in radios, sports goods, musical instruments, household electrical equipment, heating and plumbing ware, building materials, rubber goods, hardware, household or garden tools, etc.

Certain general merchandisers customarily handle a large volume of trade in hard goods. The outstanding examples are Sears, Roebuck and Montgomery Ward. Each is already having to turn back a substantial percentage of orders for such items. Some department stores, such as Macy and Gimbel's in New York City, also handle a variety of durable goods, but in these instances its proportion to total volume is much smaller

Ewing Galloway

than in the case of Sears and Ward—so that increased volume in soft goods and semi-durable goods probably will at least make up the difference. Nevertheless, 1942 volume gain for these two stores, if any, will be less than in 1941.

It is impossible to speak with complete confidence of the volume prospect of any branch of merchandising, with the exception of the grocery chains. Certainly for this year supply difficulties in the food business seem out of the picture, volume will be favorably influenced by higher consumer purchasing power and price relationships and operating profit margins should be satisfactory.

As observed in the special article on "Consumer Rationing" on page 529, you will be safer in allowing for more widespread rationing of consumer goods before the year is out than in pooh-poohing the very thought. It is far more than a matter of raw materials. It's that


Ewing-Galloway

plus labor, machinery, transportation and power. The bottlenecks at one or more points along the line will tend to increase; and priority for war needs inevitably will conflict at more and more points with production and distribution of consumer goods. Finally, there is nothing like a wave of consumer-goods hoarding—and we have one in progress now—to intensify shortages, increase the need for rationing and speed up official rationing plans.

Generally speaking, with reference to shortages and possible rationing as volume limiting factors, the best situated merchandising concerns will be those dealing mainly or exclusively in the necessitous goods of daily life at mass-market prices. Typical examples are Melville Shoe and J. C. Penney. There are, of course, others, including the grocery chains as heretofore commented on.

Yet it need hardly be said that from an investment viewpoint, a favorable supply outlook is by no means the whole story. For instance, recent market weakness in Penney stock undoubtedly reflects a certain amount of fear that the Treasury might possibly succeed in putting over its idea that in war time corporate profits should not exceed 6 per cent on invested capital.

The best-informed opinion among Washington observers—which may or may not be right—is that Congress is most unlikely to accept this punitive formula. Practically all successful large merchandising enterprises are earning much more than a 6 per cent return on their invested capital, so it is somewhat illogical to single out Penney as a possible goat—except that it earns a larger return on capital than most and it happens to be a relatively high-price, thin-market stock. In the stock market as elsewhere, the rich seem to be getting poorer. Maybe it's because the higher you are, the further you can fall.

There was probably never a year promising greater regional variations in trade prospects. Obviously, the outlook for trade expansion is brightest in cities and towns boomed by active war production. And the greater the war industry employment in ratio to normal employment, the sharper the trade gains. For example, the Philadelphia, Chicago and Los Angeles areas all have great activity in arms production and a generally favorable trade outlook but all are very large cities. A million dollar trade gain in a large city means a smaller percentage increase for retail stores located there than the same dollar gain for a smaller city. Norfolk, Va., Seattle and Yorktown, Pa., are typical examples —and there are many others—of booming war production in cities small enough so that the influx of war workers means really spectacular gain in trade volume.

By far the biggest trade center in the country is New York City and a goodly number of the merchandising companies having securities listed on national exchanges either are solely dependent on this metropolitan area or have one or more great stores located in it. They include Best & Co., Macy, Gimbel, Associated Dry Goods, Arnold Constable and Federated Department Stores. The trade prospect here for 1942 is definitely less favorable than average for urban centers. New York City has relatively little war production and is more likely to experience a net decrease in employment than a gain as a result of war-time dislocations. There is already increasing unemployment among salesmen and clerical staffs in durable goods distributing outlets, as well as among advertising agencies, publishing, brokerage, etc. The biggest single industry is garment-making. This is threatened by supply shortages, especially in woolens but also to some extent in rayons and cottons.

Quality stores catering to the upper middle classes or the wealthy will, of course, be adversely affected in above-average degree by higher personal income taxes to be met this year and the still higher levies to be legislated in the near future. These include—among listed stocks—Best & Co.; Lord & Taylor, which is one of the most profitable units of Associated Dry Goods; and Saks-Fifth Avenue, which is owned by Gimbel.

Prospect for retail trade in agricultural areas is generally good, but gains, if any, will be smaller than in 1941. If the Administration's price control plans succeed—and they have a fair chance—farm purchasing power will be stabilized at a high level, but the increment over 1941 will be smaller than was the 1941 increment

over 1940. Moreover, farm demand for durable items will be limited by scarcities and the average farmer is less prone than the average industrial worker to increase his purchases of available consumer goods merely because he has the money.

Since so many merchandising concerns operate on a fiscal year ending January 31, relatively few 1941 earnings reports have thus far been issued. Among the few available, earnings gains are relatively small, considering the larger volume, and some declines from 1940 are shown. Thus, profit of Kress (S. H.) & Co. was $1.97 per share, against $2.08 per share in 1940, whereas Woolworth reported earnings equal to $2.69 per share compared with $2.48 for 1940. While Western Auto Supply had a gain for the year, more illuminating is the fact that fourth quarter profit was $1.37 against $1.75 in the final quarter of the preceding year. Earnings of McCrory Stores increased from $2.05 per share in 1940 to $2.24; Kroger Grocery showed $2.71 against $2.51, a gain of 8 per cent, although sales volume was up 17 per cent; and G. C. Murphy earned $7.20 per share against $6.58 in the preceding year. Reversing the experience of most industrial concerns, 1941 earnings gains—if any—of merchandising concerns were less than percentage gains in volume. Best & Co., for instance, did the largest volume in its history in 1941, with sales gain of 8.57 per cent., but profits available for the common stock declined to $3.49 per share as compared with $3.63 in 1940.

The only merchandising company which has yet released a 1941 balance sheet is McCrory Stores. It shows cash reduced from $5,236,000 to $4,256,000; current liabilities increased from $3,361,000 to $5,519,000 and inventory boosted from $5,731,000 to $10,250,000. But you don't have to worry about any merchandising company having a sharply increased inventory of fast-moving goods. On the contrary, the more the better. There will be no difficulty about converting it back into cash.

Payroll costs are a vital operating factor in merchandising and are rising. The draft, plus competitive effects of radically increased employment demand in industry, makes for higher rate of personnel turnover. On the other hand, if rationing becomes an important factor in retail trade, one effect is to reduce importance of salesmanship and service. When customers clamor to buy fixed quantities—and can't buy more from any other merchant—you can let them wait for the clerks. But so far as 1942 earnings are concerned, by far the most pertinent factors are prospective smaller volume expansion and coming higher Federal taxes.

What does all of the foregoing mean to you as an investor? That depends upon your position and your objectives. If you hold surplus investment cash and seek appreciation, we would not advise purchase of merchandising shares at this time because their near-term market outlook seems unimpressive. If you seek to invest for income, equivalent, or even better, yields can be found in selected bonds and preferred stocks which carry less threat of possible depreciation in market value over the foreseeable future.

But if you hold sound merchandising stocks we certainly would not urge you to sell. Prices of most are well down in a depression range and low in relation to probable 1942 earnings. Even if some dividends should be moderately reduced, the yield would still be fair to good. Finally, whatever the earnings, they will be worth far more in market price than similar-sized earnings of war babies. For merchandising profits are far more "normal" today than war profits and normal profits always command higher valuation than abnormal profits. Post-war prospects may seem a long way off, but they are to some extent valuated in the *present* price of every stock. The war time difficulties of the merchandising companies are just as "temporary" as are the advantages more or less enjoyed by the war babies. We do not expect anything like a nose-dive in this group, nor even greater-than-average market weakness; although some of the higher priced issues—for instance, Sears, Penney and G. C. Murphy—may prove vulnerable to further decline. The group, of course, is not immune to general market trend.

Position of Leading Merchandising Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Federal Tax Basis (1) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Allied Stores	Ja$0.80	$11.40	b	$1.26	$1.57Ac	None	None	D-1	With less than 5 per cent of the company's principal lines of merchandise affected by priorities, etc., further sales gains indicated. Common dividends not imminent.
American Stores	0.81	22.90	b	0.76	1.00	$0.50	$0.75	C-2	Sales last year largest in company's history. Higher costs and taxes will restrict earnings gains this year but recent rate of dividends likely to be continued.
Arnold Constable	Ja0.85	13.13	b	1.28	1.34Ac	0.75	0.75	D-2	Sales promise to be fairly well maintained in the current year and additional irregular dividends can probably be expected.
Associated Dry Goods	Ja0.07	25.32	b	1.36	1.87Ac	None	None	D-2	Sharp reduction in arrears on the second preferred shares enhances prospects for common dividends unless company finds it necessary to conserve cash. Sales and earnings should be fairly well maintained.
Best & Company	Ja3.85	36.67	c	3.42	3.63Ac	1.85	2.00	B-3	Ability of company to expand sales sufficiently to offset increased costs is open to question. Regular dividends should be maintained. Earned $3.49, year ended Jan. 31, 1942.
Davega Stores	Mr0.52	9.56	c	0.23	0.72Ac	0.15	0.30	D-3	Current sales may be hit by priorities and restricted installment purchases. On this basis, dividend outlook must be rated as speculative.
Federated Dept. Stores	Ja2.36	29.62	b	3.10	2.90Ac	1.00	1.80	C-2	Higher taxes and restricted installment purchases may restrict current growth in sales and earnings. Earnings, however, should support recent rate of dividends without undue difficulty.
First Nat'l Stores	Mr3.60	31.31	b	3.34	3.06Ac	2.50	2.50	C-2	Further sales gains coupled with increased efficiency should enable the company to maintain their recent rate of earnings without trouble. No immediate change in dividends indicated.
Gimbel Brothers	Ja0.64	23.98	b	0.23	1.21Ac	None	None	D-2	Earnings for the most recent fiscal year estimated at about $2 a share for the common stock. Need for carrying larger inventories, however, precludes any immediate action in respect to common dividends. Near term sales prospects good.

Position of Leading Merchandising Stocks—Continued

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	1941(est)	Dividends Paid 1939	1941	Investment Market Rating	COMMENT
Grant, W. T.	Ja2.86	$25.78	a	$2.92	$2.69Ac	$1.65	$1.40	B-2	Sales promise to be well sustained during the first six months of the current year and regular dividends appear reasonably secure. Extras may be curtailed by higher taxes.
★Green, H. L.	Ja3.03	17.25	a	3.51	3.46Ac	2.30	2.50	B-2	About one-third of the company's stores are located in important defense areas and sales should be benefited accordingly. No early change in generous dividend policy.
Interstate Dept. Stores	Ja0.78	13.62	b	0.55	1.28Ac	None	0.70	C-2	Heavy concentration of stores in important industrial areas seems to assure well sustained sales. Earnings should permit further dividends.
Jewel Tea	2.79	14.33	c	2.82	2.60Ac	3.00	2.40	B-3	Near term outlook favorable, but prospects somewhat uncertain owing to substantial dependence on truck routes. Tire rationing may cause some disruptions. Dividends of at least $2 probable.
Kresge, S. S.	1.87	21.19	c	1.83	2.00	1.20	1.35	B-3	Sales outlook reasonably promising and dividends at recent rate will probably be maintained.
Kress, S. H.	1.98	27.40	c	2.09	1.97Ac	1.60	1.60	B-3	Taxes will take a further toll of earnings this year but present $1.60 dividends will doubtless be continued over the near term, at least.
★Kroger Grocery	2.15	25.24	a	2.49	2.71Ac	2.50	2.00	B-2	Current sales should register further important gains. Dividends of $2 continue to be covered by adequate margin of safety.
Lerner Stores	Ja4.32	19.12	c	3.48	3.18Ac	2.00	2.00	B-3	Some slowing up in the recent pace of sales gains forecast. Profit margins may be fairly well maintained but taxes will probably reduce earnings this year. No early change in present dividend indicated, however.
Macy, R. H.	Ja2.21	41.47	c	2.36	2.38Ac	2.00	2.00	B-3	Earnings last year probably around $2.75 a share. Probable decline in sales of "hard goods" this year, coupled with higher taxes and costs, presage some decline in net for the 1942 fiscal period. Present $2 dividend reasonably secure.
Marshall Field	0.38	19.43	c	2.47	2.45	0.30	1.30	C-3	Lower earnings forecast for 1942. Results, however, well justify dividends of at least $1.00 a share.
★May Dep't. Stores	Ja3.51	41.68	c	3.58	4.10Ac	3.00	3.00	B-2	Earnings last year estimated at approximately $4.60 a share. Concentration of stores in important defense areas should have a sustaining effect on sales. Taxes and higher costs will cut current earnings but present $3 dividend reasonably safe.
McCrory Stores	1.87	11.05	c	2.05	2.10	1.25	1.25	C-3	Rising industrial purchasing power and concentration on low-priced merchandise should have a beneficial effect on sales over the coming months. Some decline in earnings probable, however, but the dividend at the recent rate should be covered by a fair margin.
Melville Shoe	3.17	6.91	c	2.96	2.80	2.00	2.25	B-3	Substantial volume of forward buying last year may restrict sales gains in the first half of 1942. Dividends of at least $2 a reasonable expectation this year.
Montgomery Ward	Ja3.30	38.79	c	4.14	4.91Ac	1.25	2.00	B-3	Earnings for the past fiscal year estimated at about $3.80 a share, after substantial inventory reserves. Current sales will reflect restricted installment purchases and lower volume of "hard goods" sales. The $2 dividend appears reasonably secure, over the near future.
★Murphy, G. C.	5.75	30.63	c	6.58	7.20Ac	3.25	4.00	B-2	Concentration of company's stores in important industrial areas gives the company a substantial stake in defense program. Sales should hold up well but profits will be somewhat lower with the impact of higher taxes. No near term change indicated in the present $4 dividend.
National Tea	def1.12	15.73	c	0.43	0.50	None	None	D-3	Sales gains substantial last year but earnings trend continues unimpressive and scant likelihood of common dividends in the near future.
★Newberry, J. J.	5.20	41.09	c	4.53	4.65	2.00	2.40	B-3	Some decline in earnings forecast for 1942 but present 50-cent quarterly dividend should continue to be covered by a good margin of safety.
★Penney, J. C.	6.44	31.66	c	5.91	6.00	5.00	5.00	B-3	Beneficial effects of substantially increased consumer purchasing power will find reflection in company's sales this year. Increased costs and taxes, however, will restrict earnings gains and some modification in year-end dividend policy may be forthcoming.
Reliable Stores	1.39	20.22	c	1.75	2.50	0.50	0.75	C-3	Price adjustments and further moderate expansion in sales should aid current profit margins but some decline in net appears unavoidable under the impact of higher taxes. Dividends of 12½ cents quarterly likely to be continued.
★Safeway Stores	4.32	39.85	a	4.76	4.91Ac	2.50	3.50	B-2	Well sustained earnings and profit margins, coupled with larger number of units may enable the company to substantially absorb increased taxes and other costs this year. Earnings should permit maintenance of a liberal dividend policy.
Sears, Roebuck	Ja4.58	48.71	c	6.60	6.32Ac	4.25	4.25	B-3	Restrictions on installment sales and difficulty in obtaining adequate "hard goods" merchandise will result in lower sales over the coming months. Increased operating efficiency and other economies, however, should prove timely in aiding net. Some reduction in recent rate of dividends may be made later in the year.
Shattuck, F. G.	0.60	16.19	c	0.25	0.75	0.40	0.60	C-3	Ability of the company to maintain dividends on a par with 1941 will depend upon the degree of success achieved in adjusting prices to higher food and raw material costs. Substantially increased sales of candy may prove a helpful factor. Finances excellent.
Spalding, A. G.	Oc NF	6.49	c	def0.77	0.86Ac	None	None	D-2	Further sales gains forecast this year but action on preferred arrears may be deferred for some further time. Common dividends unlikely.
Spiegel, Inc.	1.53	12.11	c	1.05	1.00	0.30	0.60	C-3	Policy of company in holding catalog prices down, as a competitive measure, may have a restricting effect on profit margins, not fully offset by increased sales and volume. Dividends at recent rate will probably be maintained during the first half year, at least.
Woolworth, F. W.	3.19	21.29	c	2.48	2.69Ac	2.40	2.00	B-3	Further reduction in returns from British subsidiaries, coupled with higher costs and taxes, will limit current earnings gains, despite increased domestic and Canadian sales. Net, however, should provide a reasonable coverage for the 40-cent quarterly dividend.

Ja—Year ends January. Mr—Year ends March. NF—Not available. Oc—Year ends October. Ac—Actual. def—Deficit a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. ★—Recommended for safe income.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

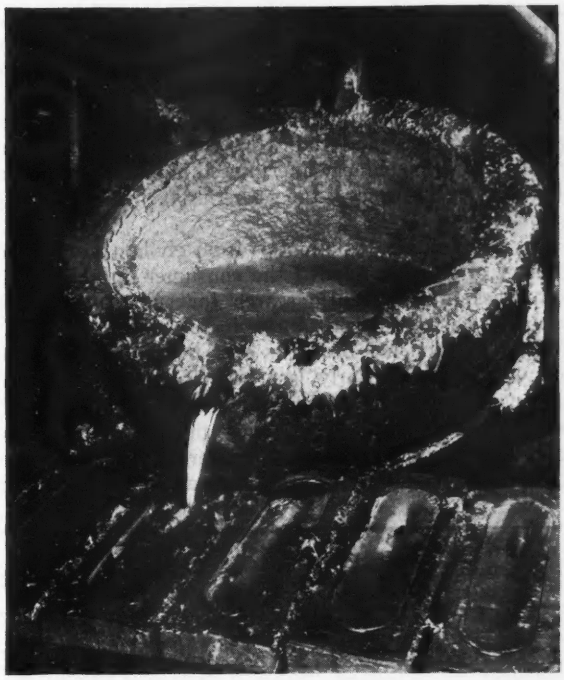
Mixed Outlook For Metals

Small Volume Gains for Producers of Copper, Lead and Zinc Will Not Affect Higher Taxes

In reviewing the position of the non-ferrous metals industries, one cannot but be impressed with the 1941 record when not only were our heavy military demands met in full, but also a goodly proportion of normal peacetime consumers continued to have their wants satisfied at least in part. It has been apparent for some time, however, that with the machine constituting the backbone of modern warfare, we could not hope to have enough metals for both military and civilian needs and it seems certain that the latter is in for further curtailment over the months ahead. Only by greatly expanded imports and a record domestic output were last year's requirements met and now that we are engaged in a shooting war on a worldwide scale, even further cuts in civilian supplies cannot be counted upon to offset the rising tide of war needs.

Realizing that something must be done to increase our metal supply, the government took action early last January which is expected to go a long way toward meeting the problem. Whereas the ceiling prices on copper, lead and zinc previously were set at 12 cents, 5.85 cents, and 8.25 cents, respectively, the output above last year's level will henceforth be paid a premium above these figures. In the case of copper, the Metals Reserve Co. will buy all such production at a price of 17 cents a pound Connecticut Valley. New lead output will sell at 9¼ cents a pound New York, and qualifying zinc will bring 11 cents a pound East St. Louis. While these prices would normally spell sharply higher profits to the industry as a whole, this may not prove to be the case because of the selection of 1941 as the base year. That year established a new high in tonnage output and many companies may find it difficult to record much of an improvement in their production figures during the current year.

What this new price policy will do is to make profitable the operation of many properties which up until now were held idle because of the impossibility of economic production at the ceiling prices. Many such mines exist in the states of Michigan and Arizona where estimates place increased output of copper under the new price arrangement in the neighborhood of 60,000 tons annually. In addition to fostering the opening of old properties, the higher price may be expected to stimulate the development of new mining operations in certain localities. Purchases will be arranged for a period of 2½ years beginning with February 1, 1942, and where expansion of facilities is necessary more lengthy purchase agreements may be made. These agreements are not to supersede individual arrangements already entered into by Metals Reserve Co., according to Jesse Jones, R F C Chairman.



Alcoa Photo

Another approach to the supply problem is that of increasing the work week to seven days and the increase in production from this policy alone is expected to augment importantly the output of some leading producers. Kennecott Copper Corp., for example, went on a seven day week over a year ago and output last year is indicated at a new all time high. Anaconda and Phelps Dodge are expected to add about 2,000 and 1,000 tons, respectively, to their monthly output under the longer work week. That we are going to need vastly greater quantities of copper and zinc over the war years is hardly open to question. While the demand from arms manufacturers has been in an upward spiral for many months, much of the new Government financed plant capacity has not yet come into full production. In the shell and cartridge divisions alone, new production over the next few months is scheduled to add around 80 per cent to the recent record output of brass casings.

According to figures just released by the Copper Institute, the production of refined copper in the United States for the year just ended amounted to 1,065,667 tons as against 1,033,710 tons in 1940. In a comparison of these figures with those on consumption, we find considerable food for thought and an indication of the dwindling supplies available for civilian use. Thus while the production figure stands at 1,065,667 tons, that for consumption amounted to 1,513,292 tons compared with 1,001,886 in the preceding year. Exclusive of consumer stocks, inventories of refined copper on hand at the year-end amounted to 75,564 tons, well below the 142,772 ton level available twelve months earlier. As in the case with most of our essential non-ferrous metals, it will be possible to add substantially to our reserve supplies through the requisitioning of scrap estimated to exist in huge quantities in idle and obsolete machinery of various types and funds are expected soon to be made available to the War Production Board for that purpose. Obsolete utility plants alone are likely to provide large quantities of such material, while the scrapping of automobiles, farm machinery and unused industrial machines should be rich sources if the gathering facilities are made available.

Diversion of strategic metals from civilian use to machinery of war has goaded the consumer durable goods industries into a frantic search for substitutes. The problem has been constantly increasing in intensity, and its solution has been the only hope of survival for many industries. Early last year it became apparent that use of aluminum in the production of civilian goods would be stopped. Consequently many companies immediately switched to steel, copper and nickel. The automobile industry, for example, had found aluminum especially valuable in pistons and cylinder heads in many of their models, but fortunately the necessitous employment of steel as a substitute was accomplished with little difficulty. Manufacturers of vacuum cleaners, washing machines, mechanical refrigerators and kitchen utensils were similarly situated. As priorities became extended to include the substituted metals, it was necessary to find new materials which would not compete with the needs of war production. Plastics, paper, glass, wood and concrete were all drawn upon, but even in some of these items, adoption in defense or shortages in available supplies make the search an endless one.

The importance of all this ever widening use of substitutes to the metal industry is that some of them may be found to have permanently displaced the formerly used metal after the war demand has ceased. Certainly the use of fiber-board and plastics may be expected to compete more actively with steel, chromium and nickel, while the greatly expanding capacity in the aluminum industry now soon to come into production will assure wider use of that metal after the emergency has passed, possibly at the expense of copper. Thus while the non-ferrous metals producers are favored by indicated capacity operations for the duration of the war, the longer term future is by no means clearly defined. With prices fixed, or at least subject to strict control, and taxes and other costs headed toward higher levels, most companies in this field probably have already passed their peak insofar as earnings are concerned. Fortunately most companies are in a favorable position at least so far as excess profits taxes are concerned. As this is written, we do not know the basis of future taxes, but with few exceptions companies operating in the mining industry (*Please turn to page* 569)

Position of Leading Metal Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Federal Tax Basis (1) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Alaska Juneau.........	$1.02	$13.12	c	$0.49	$0.40	$0.80	$0.375	D-3	Each year has shown a steady increase in operating costs, a condition which coupled with higher taxes foreshadows lower earnings. Dividends may be deferred indefinitely.
Aluminum Co., Ltd.....	12.70	88.72	c	16.03	16.50	4.25	10.00	B-3	Despite increased producing capacity and record-breaking shipments, earnings gains have been restricted by higher taxes. Regular $2 quarterly dividend, plus extras likely to be continued.
Alum. Co. of Amer.....	11.71	59.04	c	25.12	22.00	6.00	6.00	B-3	Company is engaged in huge expansion program and resulting financial requirements will hold dividends to a conservative basis. Earnings promise to be substantial, notwithstanding some decline from recent levels, as a result of higher taxes, etc.
†Amer. Metal Co., Ltd..	2.04	44.52	c	2.69	3.00	1.00	1.50	B-3	Increased returns on domestic holdings and Mexican operations should substantially offset lower returns from African companies. Dividends of at least 25 cents quarterly can be maintained without difficulty.
†Amer. Smelt. & Refg...	5.00	37.69	a	4.21	4.50	3.00	3.50	B-2	Earnings this year promise to be well sustained, even in the face of higher taxes. Operations at virtual capacity probable. Regular 50-cent quarterly dividend and further extras likely.
Am. Zinc, Lead & Smelt.	def.0.34	3.84	b	0.38	0.45	none	none	D-2	With capacity operations assured for practically an indefinite period of time, further increase in dollar volume is likely this year. On the other hand, it is doubtful whether any action on common dividends can be expected for some time to come.
†Anaconda Copper.....	2.22	61.19	a	4.04	5.00	1.25	2.50	B-2	Substantial reduction in debt, capacity operations, and increased output at somewhat higher prices, all promise well sustained earnings over the coming months. Dividends this year should be on a par with the 1941 payments.
Anac. Wire & Cable....	2.86	48.66	c	4.07	6.00	none	2.50	C-3	Some decline in current earnings may result from the impact of higher taxes, but under the stimulus of capacity operations, earnings should be maintained at a level sufficient to justify the recent 50-cent quarterly dividend rate, plus extras.
Cerro de Pasco.........	3.15	35.65	a	2.40	2.50	4.00	4.00	B-2	Some increase in current production plus the benefit of moderately higher prices should enable the company to sustain the recent level of earnings. No early change in recent rate of dividends indicated.

Position of Leading Metal Stocks—Cont'd.

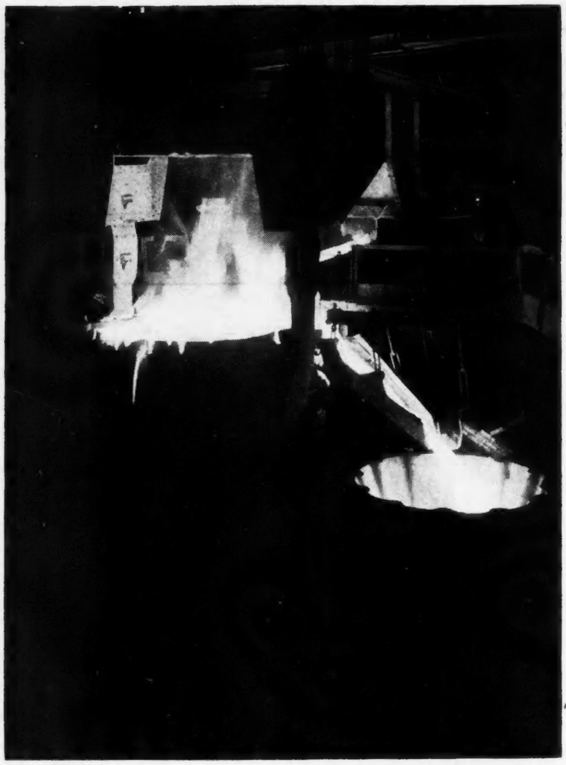
Company	Federal Tax Basis (1) Average Net 1936-1939	Federal Tax Basis (1) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
†Climax Molybdenum	$3.93	$30.49	a	$2.40	$4.00	$3.20	$3.20	B-2	Record-breaking demand for defense purposes will more than offset the loss of foreign markets. Even after allowing for substantially increased taxes, probabilities are that 1942 earnings will compare very favorably with results last year. Liberal dividends probable.
Consol. Mining & Smelt.	2.85	14.48	c	2.77	3.50	2.00	2.50	C-3	Output over the coming months promises to be well sustained but fixed prices and higher taxes will limit earnings gains. No immediate change in recent dividend policy anticipated.
Dome Mines	bdd2.07	6.78	c	2.06	1.98ac	2.00	2.00	C-3	Some further decline in production this year coupled with higher operating costs and taxes foreshadow a further moderate decline in earnings. Recent lowering of dividend to 40 cents may be only reduction required.
Eagle-Picher Lead	0.46	15.52	a	1.41	2.00	0.20	0.60	C-2	With the benefit of higher lead and zinc prices and capacity production, earnings this year may well show some further moderate expansion despite higher taxes and costs. Dividends may be increased.
Homestake Mining	3.59	11.32	b	3.03	3.00	4.50	4.50	C-2	The company does not appear particularly vulnerable to possible shortage of skilled labor, although somewhat higher costs will cut into net. No change in present rate of dividend indicated.
Howe Sound	6.29	42.78	a	bdd3.63	4.00	4.06	3.75	C-2	In 1942 the company will have the full benefit of the foreign metals subsidy initiated by the Metals Reserve Corp. late in 1941. Earnings will probably be well sustained and dividends on a par with the 1941 levels are anticipated.
Hudson Bay M. & S.	bdd1.89	13.88	c	2.16	2.50	1.75	2.00	C-2	Earnings over the coming months should hold close to the best levels of 1941 although higher costs, etc., will prevent any appreciable gains. Dividends, accordingly, will probably remain at the 1941 figure.
Inspiration Cons. Copper.	0.59	23.94	a	1.87	2.10	none	1.00	C-2	The company should be in a position to take advantage of the Government subsidy for increased production. Accordingly, some further gains in earnings may be witnessed, accompanied by a moderately higher dividend.
†Int'l Nickel	2.55	14.72	c	2.31	2.25	2.00	2.00	B-3	Substantially increased production will permit the company to mitigate the impact of higher taxes and earnings continue to cover the present 50-cent quarterly dividend. The higher rate of taxes, however, might necessitate some reduction later in the year.
†Kennecott Copper	3.03	33.28	c	4.05	4.50	2.00	3.25	B-3	Domestic production last year attained record-breaking levels but was not fully reflected in earnings, owing to greatly increased allowances for taxes. Gains this year will be restricted but the regular $3 dividend is reasonably assured.
Lake Shore Mines	Je4.10	2.75	b	2.77	1.82ac	3.75	1.55	D-2	Some increase in production and recovery may enable the company to improve moderately on recent earnings. Dividends are likely to continue to conform closely to earnings.
Magma Copper	bdd2.94	19.10	a	2.78	3.50	2.70	2.50	B-2	Although taxes will limit the recent upward trend in earnings, low costs and increased production over the coming months should permit continuation of the present 50-cent quarterly dividend plus year-end extras.
McIntyre Porc	Mr4.53	24.99	c	4.66	4.79ac	2.00	3.33	C-3	Increased costs and higher taxes will tend to limit profits in the current fiscal year. It is probable, however, that the recent rate of dividends will be continued over the intermediate term.
Miami Copper	bdd0.61	25.53	c	0.70	0.80	.....	0.25	C-3	The company may obtain some benefits this year as a result of the Government subsidy for increased output. Prospects, however, favor only slight gains in earnings. Dividends will continue limited.
N. J. Zinc	2.75	NF	a	4.19	4.88ac	2.50	4.00	B-2	Increased output and higher prices should enable the company to maintain earnings at a level which would permit continuation of liberal dividend policy.
Newmont Mining	3.47	43.59	a	1.76	2.25	1.75	2.00	B-2	Shares had an asset value in excess of $44 at the end of last September. Earnings will probably continue at a level sufficient to accord reasonable support for the recent $2 annual dividend.
†Phelps Dodge	1.18	32.37	a	2.49	2.75	1.50	1.50	B-2	Greatly increased output this year, as a result of the opening of the Morenci mine is expected to add at least $1 a share to 1942 earnings. Capacity operations also forecast for fabricating division. Somewhat higher dividends possible.
†St. Joe Lead	2.07	16.33	a	2.62	3.00	2.00	2.00	B-2	Increased production, coupled with higher prices for lead and zinc introduce two favorable elements into current outlook. Dividend policy should continue liberal.
Silver King Coalition	0.53	7.95	c	0.38	0.40	0.25	0.40	D-3	Higher lead and zinc prices will aid company in maintaining profit margins but outlook does not favor any appreciable gain in recent trend of earnings. Dividend policy will conform accordingly.
Sunshine Mining	2.71	2.55	c	1.82	1.40	1.60	1.30	D-3	Prospects at this time do not favor any material gain in near term trend of earnings. Recent rate of dividends will probably be continued over the near term, however.
U. S. Smelting	7.04	83.84	c	8.16	7.00	5.50	5.00	C-3	Current operations benefited by somewhat higher prices although it is to be doubted that profits will expand in the face of higher costs and taxes. Liberal dividends, however, will likely be continued.
Vanadium Corp	1.62	31.76	c	2.84	2.75	1.00	1.50	C-3	Operations at virtual capacity are assured for the coming months but higher taxes are likely to circumscribe earnings gains. Dividends will continue conservative.

bdd—Before depletion and depreciation. Je—Year ends June. Mr—Year ends March. NF—Not available. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes. c—Higher taxes will probably reduce earnings. †—Recommended for cyclical appreciation.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

Record Volume for Steel

Profits Likely to Be Moderately Below 1941



Republic Steel Photo

The steel industry is one of several which are being turned inside out in the effort to expedite production of armaments. Last year substantial amounts of steel went into civilian uses, whereas this year the war program will claim the lion's share and leave little or nothing available for civilian purposes. Nevertheless the changeover to a war basis will not create problems as perplexing as those which have beset other industries. Producers of consumers' goods in many cases have been called upon to make guns, shells, or other military items which have little or no relationship to normal activities. Steel makers will still be making steel, although some changes in types may be necessary for specific companies. In general, such changeovers in kinds and types of steel as may be required can be accomplished with relative ease, and will not materially affect the rate of operations or, for that matter, profit margins.

Reflecting the record breaking level of industrial production; the growing importance of armaments; and the expansion in productive facilities accomplished by the steel industry, output last year of open hearth, Bessemer, and electric furnace steel ingots reached the record breaking total of 82,927,557 net tons. This huge total topped the previous peak of 66,981,662 tons for 1940 by nearly 25 per cent, and exceeded by 65 per cent the highest annual figure attained during the first World War.

To achieve the new record, the steel industry operated in 1941 at an average rate of 97.4 per cent of capacity available as of the beginning of the year, compared with an average rate of 82.1 per cent of capacity during 1940. During 1940, however, production was stepped up from 14,679,703 tons for the first quarter to 19,609,006 tons for the fourth quarter, while output in 1941 increased moderately in each quarter from 20,297,626 tons for the first three months to 21,376,669 tons for the final quarter of the year.

Total production of finished steel products in 1941 amounted to 65,361,688 net tons, an increase of 16,776,828 tons, or 34.5 per cent, over the 48,584,860 tons produced in 1940. Last year's production of finished steel products for sale reached a new record of 60,942,979 net tons compared with 45,865,971 tons for 1940. The 1941 distribution of finished steel products by consuming industries as computed by The Iron Age indicates a sharp increase in steel consumption by the aircraft and shipbuilding industries, but a comparatively small portion of the total tonnage went for war purposes. The story this year will be quite different; as the year began, nearly two-thirds of the backlog of unfilled orders for carbon steel represented war demands, while over three-quarters of the total unfilled orders for alloy steels were composed of military and Governmental agency or export requirements.

Both steel ingot and pig iron capacity are being expanded, with around 60 per cent of the expansion costs being financed by the Government. By the end of June, steel ingot capacity is expected to total around 89.3 million tons, compared with 86.2 million tons at June 30, 1941, and a further rise to about 93.9 million tons is expected to be attained by some time in 1944 at the latest.

The otherwise favorable operating picture has one significant blemish—the shortage of scrap steel. Some decline in steel ingot production consequently is anticipated during coming months, and output during the first half may be nearer the 40,908,543 net tons produced in the first six months of 1941 than the 42,019,014 tons turned out in the second half.

The steel companies are relatively favored from an excess profits tax standpoint by heavy invested capital. The threatened slackening in production coupled with rising costs and taxes, foreshadows some decline in steel earnings. However, net profits and dividends will compare favorably with all recent years other than 1941.

Position of Leading Steel and Iron Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (Est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Acme Steel	$4.82	$41.80	c	$6.43	$9.65Ac	$2.00	$5.00	B-2	The availability of scrap iron will be a principal operating factor, but otherwise the growing percentage of defense work suggests virtually capacity operations for an extended period. Taxes will impede possible earnings betterment in nearby months, but payments are likely to remain liberal.
†Allegheny Ludlum	NC	20.26	c	2.78	3.86Ac	0.50	2.25	B-2	Alloy steels are in exceptional demand for armaments, and capacity operations would be assured but for the uncertain scrap situation, which might prove an adverse factor. Although forthcoming taxes may reduce earnings, dividends probably will remain moderately liberal.
Amer. Rolling Mills	1.08	29.76	a	1.96	2.90	None	1.40	C-1	Moderate improvement in earnings is indicated for nearby months, but conservative dividends may be deemed advisable because of expansion costs.
†Bethlehem Steel	3.64	129.37	a	14.04	9.35Ac	1.50	6.00	B-1	Earnings promise to be well maintained despite taxes, since armament business is growing and ship deliveries will swell billings. Bethlehem Steel has some immunity from scrap problem. Maintenance of $6 dividend expected.
Byers (A. M.)	Se def1.21	28.98	c	0.97	3.73Ac	None	None	D-3	Wrought iron sales may record further gains, and expansion into alloy steel field holds promise. A decline in earnings is indicated by rising costs and taxes, while preferred arrears, against which further payments are likely, prevent common disbursements.
Colorado Fuel & Iron	Je1.21	40.84	a	3.10	4.06Ac	None	1.25	C-1	Taxes will be restrictive, but earnings should hold at satisfactory levels. Expansion probably will dictate conservative dividends.
Continental Steel	3.42	58.30	c	3.23	5.46Ac	2.00	2.50	C-3	Production schedules will be governed by availability of scrap and zinc, while operating costs are rising. Since taxes probably will depress earnings, conservative dividends are indicated.
†Crucible Steel	0.56	57.92	a	10.24	12.96Ac	None	1.00	C-2	Crucible is an important war beneficiary. Earnings should hold at favorable levels despite restrictive taxes, while increased dividend payments are indicated.
General Refractories	2.30	36.28	a	2.47	2.75	0.50	1.40	C-2	General Refractories is expected to maintain earnings satisfactorily despite taxes, inasmuch as demand is strong and operating economies should more than offset rising costs. Continuance of conservative dividends indicated.
Granite City Steel	0.37	31.56	a	0.82	1.00	0.125	0.35	C-1	Operations are likely to remain at high levels on the basis of demand for flat-rolled steels. Profit margins should improve, and nearby earnings at least promise considerable improvement despite taxes. Increased dividends anticipated.
Harbison-Walker	1.56	21.02	a	1.72	2.00	1.00	1.50	C-1	Harbison-Walker is virtually assured of capacity operation for an indefinite period. Profit margins should reflect opreating economies, and earnings should hold satisfactorily despite taxes. The $1.40 dividend rate is likely to be continued.
Inland Steel	6.61	65.06	a	8.87	9.08Ac	4.00	5.00	B-1	Earnings of this integrated, low-cost producer are expected to be well maintained despite anticipated tax increases, while maintenance of fairly liberal dividends is indicated.
Interlake Iron Corp	0.18	23.42	a	0.41	1.20Ac	None	0.75	D-1	Demand for pig iron, coke and by-products is pressing. Profits expected to be maintained at least despite taxes, and continuance of fairly liberal dividends indicated.
Jones & Laughlin	Adj def4.04	160.58	a	5.60	10.18Ac	None	1.35	C-1	Despite higher taxes in prospect, earnings should hold at good levels, and warrant more liberal dividends, since military demands, increasing shell work, and operating economies induced by sustained high-level operations favor growth in operating profits. Merger with Otis Steel reported under discussion.
Keystone Steel & Wire	Je1.39	12.67	c	1.87	2.14Ac	0.85	1.05	C-3	Material shortages may restrict operations in coming months, and indications point to narrowing profit margins. Fairly liberal disbursements expected.
National Steel	5.69	64.02	a	6.83	7.75Ac	1.70	3.25	B-1	The earnings and dividend record has been considerably better than average for the industry, and indications point to well maintained earnings, as well as higher dividends.
Otis Steel	0.06	4.65	c	def0.04	1.25	None	None	C-3	Since narrower profit margins are indicated and taxes are rising, profits may be depressed. Until preferred arrears are cleared, common dividends are precluded. Merger with Jones & Laughlin reported under discussion.
†Republic Steel	0.51	37.16	a	3.30	3.88Ac	None	2.00	C-2	Nearby earnings should be maintained at recent levels despite taxes, but drain on cash caused by taxes and plant expansion probably will dictate conservative dividends.
Sharon Steel	1.13	26.11	a	2.65	3.30	None	1.00	C-2	The scrap situation will affect the level of operations in nearby periods. Otherwise, well maintained earnings are indicated, as are conservative dividends.
Superior Steel	1.27	17.28	a	3.08	7.00	None	None	C-1	Virtually capacity operations are expected to continue, but higher costs and taxes will restrict possible earnings gains. Dividend resumption appears in prospect.
U. S. Pipe & Fdry	3.18	40.43	c	3.45	3.76Ac	2.50	2.50	B-3	Curtailment of non-defense construction and municipal demand, and pig-iron shortages, cloud outlook beyond near-term. Profits outlook also uncertain, and a decline probably would imperil recent rate of dividends.
†U. S. Steel	2.24	117.06	a	8.84	10.43Ac	None	4.00	B-1	U. S. Steel's earnings are expected to be maintained satisfactorily as a result of war demands on steel and other facilities, and larger dividends would seem warranted.
Warren Fdry. & Pipe	2.54	24.08	e	3.87	4.00	2.50	3.00	C-3	Reduced demand for cast iron pipe is in prospect. While iron ore operations are likely to remain high, indications point to a lowering of profits this year and perhaps of dividends.
†Wheeling Steel	2.77	49.95	c	6.53	11.71Ac	None	2.00	C-3	Production difficulties may be encountered as result scrap and tin shortages. Outlook suggests some decline in earnings in view of narrowing profit margins and higher taxes, but dividends nevertheless could be increased.
Woodward Iron Co	2.73	48.69	a	4.27	3.65	None	2.00	C-2	Adverse operating factors affected earnings last year, but some improvement should be experienced this year in view of exceptional demand for pig iron. Continuance of conservative dividends expected.
Youngstown Sheet & T.	2.48	78.68	a	5.96	9.00	None	3.00	C-1	Earnings should be well maintained in coming periods despite taxes in view of heavy orders and relatively good profit margins indicated. Plant expansion expenditures will probably dictate continuance of conservative dividends.

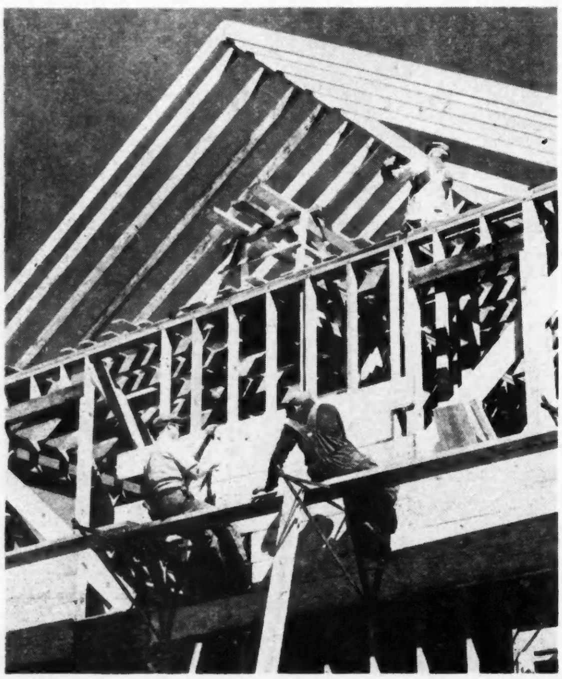
NC—Merged in 1938—operated at deficit of $1.04 in 1938 and profit of $1.49 a share in 1939. Se—Year ends September. Je—Year ends June. Ap—Year ends April. Ac—Actual. def—Deficit. Adj—Adjusted to present capitalization. †Recommended for cyclical appreciation. a—Should be able to absorb higher taxes without undue difficulty. c—Higher taxes will probably reduce earnings. e—Higher taxes may restrict dividend payments.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

Building Industry Faces Lower 1942 Earnings

Makers of Non-Priority Materials in Best Position

PREDICTIONS as to 1942 construction volume have undergone considerable fluctuation in the last two or three months. That sentiment should have ranged from pessimism to the present more optimistic view of over-all construction activity is not surprising. In October orders were issued terminating all construction for non-defense purposes, with the exception of private housing constructed in specified defense areas and priced to sell at not more than $6,000 or to rent at not more than $50 per month. Furthermore, metal shortages and priorities reinforced the gloomy expectations then prevalent, and were held to act as a deterrent on prospective home builders as well as financing media because of fear that a house, once started, might not be completed. The drastic curtailment ordered in non-essential construction categories provided the statistical basis for the forecast made in October by the head of the housing priorities branch of the then O P M (now, War Production Board) that construction volume this year would total somewhere between $8 and $9 billion, compared with the record figure of more than $11 billion for 1941.



Triangle Photo

Current indications are that a new peak in construction volume will be attained in 1942. All building other than that required to prosecute the war or to safeguard the public health will be virtually terminated. The dynamic factor in building prospects is the expansion in military facilities, armament plants, emergency housing now needed as a result of the more rapid induction of men into the armed forces and the huge production of arms and munitions which has been scheduled to supply the American winged service, army and navy, and the nation's allies.

Dislocations within the building industry will obviously be acute due to the divergent trends indicated for major construction divisions. Defense housing construction activity will be sharply higher, but will not benefit areas in which there are no war industries. Construction of new industrial plants will be well above last year's total of around $1.6 billion, but there will be no building of new industrial or commercial plants for civilian purposes, and no public works projects non-essential to defense, unless required for maintenance of public health, as in the case of hospitals, or for educational purposes, such as schools.

Most building supply companies last year operated at unusually high levels in reflection of the record volume of construction, and some had the best volume ever attained. Volume gains were not fully translated into profits, inasmuch as costs were rising, as were taxes. Nevertheless, profits for the industry in general were somewhat better than for 1940.

Profit prospects this year are less favorable. Not only will the dislocations mentioned proviously upset operations of many enterprises, but costs are still rising, and taxes are scheduled to be advanced additionally. Profit margins on Government contracts generally will not compare as favorably as those obtained on private work, while price ceilings will limit the ability of individual companies to pass on higher costs.

Since maintenance and repair work will probably reach new highs this year both within and outside defense areas, relatively the best profit prospects reside in such non-metallic building supply fields as cement, lumber, stone, asphalt, roofing, brick, and wallboard. Producers of building supplies such as plumbing and hardware which require metals probably will incur sales contraction despite conversion of some portion of facilities to production of armaments.

Position of Leading Building Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Book Value	Tax Rating	Earned Per Share 1940	1941 (Est.)	Dividends Paid 1939	1941	Investment Market Rating	COMMENT
†Alpha Portland Cement	$0.81	$33.18	a	$1.44	$1.95	$1.00	$2.00	C-1	War stimulated construction of munitions plants and military and naval facilities expected to more than compensate for contraction indicated in demand for housing. Since profit margins should be maintained, earnings should hold up well in nearby periods despite taxes. Continuance liberal dividends anticipated.
Amer. Encaustic Tiling..	def0.14	2.11	c	0.21	....	None	None	D-3	Higher operating costs and taxes expected to moderate earnings despite anticipated offset to receding residental demand for tiles by expanded military construction requirements. Restricted finances suggest improbability of dividend resumption.
Amer. Radiator.........	0.41	9.10	c	0.70	0.80	0.30	0.60	C-3	War demands plus military production will largely offset slump in residential demand, but profit margins probably will narrow. Since taxes are to be increased, profits are likely to recede, and may dictate downward readjustment of dividends.
Armstrong Cork.........	2.80	34.10	c	2.79	3.50	2.00	2.25	C-2	Materials difficulties and receding civilian sales, as well as higher taxes in prospect, foreshadow earnings recession. Continuance of moderately liberal dividends indicated.
Celotex...............	Oc1.19	7.31	e	0.96	2.51Ac	None	1.125	C-2	Earnings are likely to be sustained during near future by military requirements, but may be impaired subsequently by taxes and drop in residential construction. Dividends likely to remain conservative.
Certainteed Prods.......	def0.68	88.92	c	0.28	1.60	None	None	D-3	Construction of military cantonments should at least resist sales contraction indicated for roofing materials and gypsum for non-defense housing. Rising costs and taxes are an adverse earnings factor, while dividends are remote because of preferred arrearages.
Congoleum-Nairn......	1.70	20.67	a	1.30	1.75	1.50	1.50	C-2	Cantonment and industrial plant requirements of linoleum and floor coverings considered good, and military items should become more important. Earnings outlook consequently relatively promising, and dividends should remain fairly liberal.
Crane Co.............	1.74	29.57	c	1.78	2.25	0.60	1.00	C-2	War stimulated demand for valves, pipes, and fittings, of which Crane is the leading producer, will at least sustain sales in nearby periods, but, since profit margins may narrow and higher taxes are in prospect, earnings may recede moderately. Continuance of a conservative dividend policy indicated.
Devoe & Raynolds "A".	Nv2.23	42.28	a	1.16	7.08Ac	None	1.00	C-2	War stimulating demand for paints for industrial plants and military and naval facilities. Volume prospects should sustain profit margins, and well maintained earnings indicated despite taxes. An improved capitalization promises liberalization of dividends.
Flintkote..............	1.64	15.94	a	2.10	2.25	1.00	1.00	C-2	Military demand for roofing materials promises to offset restricted residential construction other than in defense areas. Profits likely to be well maintained, and $1 dividend continued.
General Bronze........	def0.22	5.38	a	0.46	1.00	None	None	D-1	Production of airplane parts and ordnance materials has lifted operations sharply, and earnings should record further gains despite taxes and other obstacles. Heavier working capital requirements and bank loans may forestall dividend resumption.
Holland Furnace.......	2.86	22.33	c	3.59	4.00	2.00	2.50	C-3	Metal shortage principal uncertainty in operating prospects, and lower profits likely. Dividends probably will remain conservative.
†Johns-Manville.......	3.92	47.47	a	6.35	6.66Ac	2.75	3.00	C-2	Operations will probably remain at high levels because of industrial demand and use of asbestos products for maintenance work. Well maintained profit margins and earnings indicated, but dividends are likely to remain conservative.
Lehigh Portland Cement.	1.90	40.35	a	2.41	2.78Ac	1.50	2.00	C-1	Military, plant, and emergency housing construction requirements create favorable demand prospects and promise well maintained earnings. Conservative dividends indicated.
†Lone Star Cement.....	3.29	46.68	a	3.57	4.30Ac	3.25	4.00	C-2	War construction promises to lift sales, and profit margins should benefit from sustained high level operations. Earnings likely to be well maintained. Liberal dividends indicated.
†Masonite Corp........	Ag2.36	9.93	a	2.91	3.56Ac	1.00	1.50	C-1	Hardboard products are in demand for industrial and war purposes. Further sales and operating income gains are indicated, but taxes will limit improvement in net profits. Satisfactory financial condition justifies more liberal dividend policy.
Minneapolis-Honeywell.	3.51	30.63	c	3.87	4.25	2.00	3.00	C-2	War demands for temperature and heat control devices, as well as war orders for specialized products such as periscopic sights should sustain sales volumes. Since profit margins may narrow and taxes will be more burdensome, profits may recede. Continuance of the $3 dividend nevertheless is indicated.
Nat'l Gypsum Co.......	0.62	6.42	c	1.03	1.10	0.25	0.40	C-3	The growth in military, plant, and defense housing demand for gypsum building materials should counteract decline in residential building. Profit margins may narrow, and higher taxes may cause mild earnings recession. Conservative dividends indicated.
Otis Elevator..........	1.09	16.42	a	1.19	1.10	0.90	1.00	C-2	Defense orders for machine tools, aircraft parts, ordnance and other war items as well as elevator business for war plants should benefit sales volumes. Net earnings should be maintained satisfactorily. Dividend policy expected to remain liberal.
Paraffine Cos..........	Je3.82	41.33	a	3.40	3.16Ac	2.25	2.00	C-2	Current fiscal year earnings will record further progress, and dividends of at least $2 per share are indicated.
Penn Dixie Cement.....	def0.93	....	a	def0.43	0.70	None	None	D-2	Sales prospects favored essential war-time construction. Taxes restrict earnings betterment, while preferred arrears, against which further payments indicated, preclude common disbursements.
Ruberoid.............	1.69	39.05	c	2.02	3.25	1.10	1.75	C-3	Demand for asphalt and asbestos products for cantonment, defense housing, and maintenance purposes will increase but may not fully compensate for reduced non-defense housing. Narrower profit margins indicated, and combined with heavier taxes, likely to cause lower profits. Fairly liberal dividends expected.
Sherwin-Williams.......	Ag6.21	67.00	c	6.57	7.83Ac	2.75	3.75	C-2	Sherwin-Williams will receive substantial orders for military, industrial, defense housing, and house refurbishing which may offset decline in residential construction. Ingredient and operating costs are rising, as are taxes, and current fiscal year earnings therefore are expected to recede. Dividends could be augmented nevertheless.
U. S. Gypsum.........	4.30	47.63	c	5.44	5.00	4.00	3.50	C-2	Earnings of this leading producer of gypsum building products may recede additionally during the near-term, but ample finances justify liberal dividends.
Yale & Towne.........	1.76	41.22	c	2.90	3.75	0.75	1.00	C-2	Military orders will become increasingly important, while demand for industrial products is favorable. Hardware sales for defense housing will at least partially offset reduced residential construction. Taxes will be burdensome, and earnings recession appears likely. Ample finances justify more liberal dividends.

a—Should be able to absorb higher taxes without undue difficulty. c—Higher taxes will probably reduce earnings. e—Higher taxes may restrict dividend payments. Oc—Year ends October. Nv—Year ends November. Ag—Year ends August. Je—Year ends June. Ac—Actual. def—Deficit. †—Recommended for cyclical appreciation.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

Liquor Companies Have Favorable Earnings Prospect

Present Dividends Seem Secure

INDICATIONS are that sales and earnings of leading distillers are running at about the same rate or perhaps somewhat better than a year ago, and expectations are that a fairly good level of earning power will be maintained this year irrespective of the higher taxes expected to be levied within the near future. An important factor in relatively favorable sales and earnings outlook is the high level of consumer income, and the known tendency of consumption to increase during war periods. Moreover, inability on the part of individuals to obtain certain types of consumer goods because of rationing and diversion to war purposes is expected to accentuate this tendency for consumption to increase. Home entertainment will become more popular, and refreshments add a feeling of conviviality and hospitality.

Sales were stimulated considerably last summer as consumers stocked up in anticipation of higher excise taxes, and satisfactory consumption rates have been maintained ever since. The leading whisky distillers are amply supplied with relatively low-cost inventories of aged whiskies, and therefore should be able to supply consumers for a protracted period even though all facilities should be changed over to distillation of industrial alcohol, demand for which has increased phenomenally. Industrial alcohol is required in manufacture of explosives and plastics, and there is a shortage of molasses, the cheapest production source. Non-essential consumption of industrial alcohol consequently has been restricted, and the distilling industry is prepared to supply large amounts. Gin production requires large amounts, and will be mostly discontinued, but its loss will not be felt to any great extent since gin has not been a particularly profitable line.

All in all, earnings prospects of leading distillers are considered relatively promising, and the refunding of short-term obligations into issues of longer maturity reinforces the probability of maintenance of liberal dividends.

Position of Leading Liquor Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Federal Tax Basis (1) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (Est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Angostura-Wupperman..	$0.33	$1.89	c	$0.17	$0.20	$0.05	$0.10	D-2	The high level of consumer income and the war environment probably will continue to stimulate consumption of mixed drinks, in which bitters are used as an ingredient. Taxes, however, will be restrictive, and appear likely to reduce earnings moderately. Dividends no doubt will remain modest, and conservative in relation to earning power.
Austin, Nichols...	Ap def1.16	....	b	def1.89	def1.15	None	None	D-2	The war may restrict imports of wines, liquors, and beer, such as this enterprise distributes, but company should benefit from markups on relatively large inventories and sustained consumption of domestic alcoholic beverages. Preferred dividends may be covered during the current fiscal year ending April, but dividend resumption not in immediate prospect.
Distillers Corp. Seag....	Jl3.35	26.83	a	5.08	4.17Ac	2.05½	2.22	C-2	Substantial inventories are a boon under present conditions, while high level general consumer purchasing power plus the higher consumption trends fostered by war conditions promise to abate periodic price wars prevalent in industry. Earnings for the current fiscal year are likely to be well maintained, and continuance of $2 dividend in United States funds appears assured.
★National Distillers.....	3.74	23.58	a	3.28	3.50	2.00	2.00	C-2	Diversion of additional capacity to alcohol production will help carry overhead costs, and assist in maintenance of better prices on remaining items. Substantial inventories coupled with indications of satisfactory consumption trends promise maintenance of good level of earnings despite taxes. While cash funds are characteristically restricted, prospects favor continuance of liberal dividends.
Schenley Distillers......	Ag3.97	38.76	a	2.74	5.20Ac	None	1.00	C-2	Schenley Distillers is stated to have the largest whiskey inventories, and should be able to maintain earnings satisfactorily despite taxes as a result of rising prices and consumption. Dividends will probably be moderate because of bank loans.
★H. Walker-G. & W....	Ag7.37	34.10	a	7.60	8.79Ac	4.00	4.00	C-2	Current fiscal year earnings may register further moderate gain, since sales should benefit from high level of consumer income and higher prices. While cash has generally been small, and the Canadian exchange situation injects some uncertainty, prospects favor continuance of $1 quarterly dividend rate, which is somewhat smaller to American holders because of Canadian withholding tax and exchange differential.

Ap—Year ends April. Jl—Year ends July. Ag—Year ends August. def—Deficit. ★—Recommended for income. a—Should be able to absorb higher taxes without undue difficulty. b—Not likely to be subject to heavy excess profits taxes.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

Motion Picture Companies Have Bright Prospect

Now that the Director of Selective Service has declared the motion picture industry to be "an activity essential in certain instances to the national health, safety and interest, and in other instances to war production," and has authorized the deferment from military service of actors and other individuals whose removal "would cause a serious loss of efficiency," the motion picture industry can truly be said to be far better situated with respect to prospects for revenues, earnings, and dividends than most forms of industrial activity. Clarification of the essential nature of the industry removes whatever doubts may have existed as to the possible effects of raw materials priorities which in any event were not expected to be serious. Moreover, the high level of consumer income happens to correspond with the diversion of plant facilities or materials from civilian purposes to war, with the result that individuals are expected to seek entertainment more frequently at the movies.

Operating costs have been rising, as is true in most other fields of endeavor. However, the higher attendance indicated for this year should permit further gradual advances in admission prices, and earnings of theatres are likely to record additional improvement despite the more burdensome taxes anticipated in the near future. Producers likewise should benefit from higher film rentals and the lower level of film amortization resulting from continued control of film costs. In the case of leading units, financial positions will gain from the more liberal arrangements for withdrawal of 50 per cent of British earnings for the year ending October 31, 1942, and 50 per cent of previously blocked funds.

Position of Leading Motion Picture Stocks

Company	Federal Tax Basis (1) Average Net 1936-1939	Federal Tax Basis (1) Book Value	Tax Rating	Earned Per Share 1940	Earned Per Share 1941 (Est.)	Dividends Paid 1939	Dividends Paid 1941	Investment Market Rating	COMMENT
Columbia Pictures	Je$1.66	$25.25	a	$0.84	$0.95Ac	2.5% stk.	None	D-1	Current fiscal year earnings are expected to show considerable improvement over 1940-1941, although taxes will moderate reflection in net profits of operating gains resulting from increased film rentals and production cost control.
Consolidated Film Ind.	def0.20	....	..	def0.40	def	None	None	E-3	Preferred dividends will be continued, but resumption of common dividends may be delayed. Operating prospects of this leading film processor are clouded by rising costs and economy efforts of film producers. Continuance of partial payments on preferred indicated, but arrears are mounting, and contribute to dubious outlook for common.
*Loew's, Inc.	Ag6.55	61.90	a	4.82	6.14Ac	$2.50	$3.00	B-1	Continuance of earnings progress is indicated for this leading integrated unit as a result of growing theatre attendance, increased film rentals, and savings from refinancing. Current finances, already ample, will be bolstered by agreements for withdrawal of 50 per cent of British earnings and of blocked funds. Dividends may be augmented.
†Paramount	1.10	19.47	a	2.63	4.00	0.15	0.90	C-1	The earnings outlook is promising on the basis of prospects for theatre attendance, higher admission prices, and arrangements for withdrawal of British funds. Liberalization of dividend payments would seem justified.
Radio-Keith-Orpheum	NF	....	..	....	....	None	None	D-1	The reorganized company has yet to demonstrate earnings ability. While the company is aided by the same favorable factors affecting the industry as a whole, substantial earnings applicable to the new stock are considered improbable, and common dividends are far distant.
Technicolor	0.89	6.04	a	0.99	1.20	1.00	0.75	C-1	Increased color film business is expected on which profit margins should remain satisfactory, but taxes will limit earnings improvement. Dividend policy is likely to remain fairly liberal.
20th Century Fox	3.15	12.67	a	def1.09	1.00	1.00	None	C-1	Profits trend considered favorable as result indications continued improvement in theatre attendance, film rentals, and cost control efforts. Company also will benefit from arrangements for withdrawal of 50 per cent of British earnings to October, 31, 1942, and 50 per cent of funds previously blocked. Since current finances are being bolstered, dividend resumption may soon eventuate.
†Warner Brothers	Ag0.75	20.54	a	0.63	1.36Ac	None	None	D-1	Continued earnings improvement anticipated because of favorable theatre attendance and film rental outlook. Increased British remittances from current earnings and blocked funds will bolster working capital, and should expedite arrangements for handling heavy preferred dividend arrearages which now preclude payments on common.

Je—Year ends June. Ag—Year ends August. def—Deficit. NF—Not available; company recently reorganized. *—Recommended for income and appreciation possibilities. †—Recommended for cyclical appreciation. a—Should be able to absorb higher taxes without undue difficulty.

(1)—Corporations have the option of computing excess profits tax liability either on the invested capital method or the average earnings method. The former allows a credit of 7 to 8% on invested capital; the latter allows a credit of 95% of average earnings for the years 1936-1939. Indicated book value is an approximation of invested capital.

FOR PROFIT AND INCOME

More and More Machine Tools

The machine tool industry will not be permitted to rest on its oars despite the fact that total production last year, valued at $775 million, set a new all-time record. At the end of the year deliveries were being made at the rate of $100 million monthly. This year the industry has been requested to turn out $2 billion in new machine tools, which would mean deliveries at the rate of $166 million monthly. To attain this seemingly impossible goal, the facilities of many manufacturers not normally identified with the machine tool industry are being enlisted, while most of the leading machine tool companies are rushing expansion plans toward completion. Warner & Swasey, for example, the largest producer of turret lathes and with deliveries last year 278 per cent above 1939, will begin construction of two new plants which will increase the company's present production by 40 per cent. Machine tools are the very heart of every metal fabricating process and on the ability of the industry to meet the demands upon it will depend in a large measure the success of our war effort. Meanwhile, leading machine tool builders are assured a high level of earnings even in the face of substantially increased taxes.

Gasoline Rationing Ahead?

With U boats apparently concentrating their efforts on the sinking of American oil tankers, the specter of gasoline rationing on the Atlantic Seaboard is again looming. The latest available figures show that gasoline inventories on the east coast are 770,000 barrels less than a year ago, having shown a drop in three successive weeks. Fuel oil inventories in the same area are down 1,400,000 barrels compared with last year. What these figures may portend for the American motorist is indicated by recent developments in Canada. Beginning April 1, every automobile owner in Canada will be compelled to pay $1 for a gasoline license. Owners will be classified into various groups and according to present plans, private car owners will be alloted 300 to 380 gallons of gasoline a year, while commercial owners will be permitted 1,080 gallons a year. Allotments will be subject to quarterly adjustment depending upon available supplies. Gasoline rationing will strike another blow at thousands of independent retailers, already staggering under the impact of tire rationing.

All Out

The annual report of Caterpillar Tractor Co. disclosed the interesting fact that last year the company's sales were almost wholly for defense purposes. Previously the company's principal sales outlets were afforded by such peace-time pursuits as farming, road building and construction. It was not necessary for the company to undertake a large-scale conversion of either facilities or products, however, because sales last year which found their way into defense projects were made up largely of regular products—doubtless used in the construction of airports, training camps, gun emplacements, etc. Sales last year increased nearly $30,000,000, but taxes held earnings to the equivalent of $4.13 a share compared with $4.16 a share in 1940. The company spent nearly $5,000,000 last year for plant additions; working capital increased $1,600,000.

Interesting Preferred

Sharon Steel 5% preferred shares recently quoted around 57, to yield about 8.75 per cent, invite favorable

Last year nearly all of Caterpillar Tractor's sales were for defense projects. The above unit is constructing an airport on the top of a mountain in Johnstown, Pa.

consideration both for income and possible price appreciation. The shares have a rather "thin" market and consequently are subject to rather sharp market fluctuations. If this lack of market stability is not a primary factor, the liberal yield affords rather substantial compensation. The company's report for the full 1941 year has not yet been issued, but for the nine months to Sept. 30, last, net available for preferred dividends was equivalent to $20.53 a share, or nearly 5½ times the dividend requirement for that period. Principal products of the company are the lighter forms of steel, utilized principally by the automobile, refrigerator and other consumers' durable goods industries. It is probable, however, that in the present setting much of the company's output will be diverted to defense needs, with earnings holding at a level well in excess of preferred dividend requirements. The company's strong financial position, at last reports, offers further assurance as to the security of preferred dividends.

Dividend Payments in 1941 of Common Stocks Listed on the New York Stock Exchange

	No. of Issues Listed	Number Paying Div.	Estimated Total Amount Paid	Per Cent Change From 1940	Av. Yield All Stocks (Median)
Amusement	13	8	$13,683,000	+12.1%	6.2%
Automobile	61	44	252,463,000	+ 6.8	9.6
Aviation	17	12	47,472,000	+66.1	7.6
Building	26	18	28,409,000	+15.3	8.5
Business and Office Equipment	9	9	17,100,000	+20.5	10.6
Chemical	67	60	259,493,000	+ 6.9	6.1
Electrical Equipment	17	13	65,932,000	—13.4	7.9
Farm Machinery	6	5	24,710,000	+27.1	6.3
Financial	29	25	56,701,000	— 1.3	8.0
Food	56	45	131,040,000	+10.9	7.1
Garment	5	4	2,835,000	+ 9.0	10.2
Land and Realty	5	2	209,000	—36.1	.....
Leather	12	8	12,163,000	+10.9	7.2
Machinery and Metal	75	64	87,964,000	+11.0	10.0
Mining	34	24	111,873,000	+12.8	8.6
Paper and Publishing	25	21	14,463,000	+12.6	9.5
Petroleum	37	31	233,371,000	+22.2	6.7
Railroad	82	40	160,640,000	+12.1	...
Retail Merchandising	66	50	127,420,000	— 3.9	7.9
Rubber and Tire	7	6	13,518,000	+93.6	13.6
Ship Building and Operating	9	8	7,727,000	+76.6	7.5
Shipping Services	4	1	300,000	......	...
Steel, Iron and Coke	38	31	113,364,000	+49.7	8.5
Textile	23	18	19,760,000	+32.0	7.9
Tobacco	19	17	73,696,000	— 5.9	8.2
All Public Utilities	47	31	310,817,000	— 6.4	8.0
U. S. Companies Operating Abroad	23	13	35,933,000	+10.9	5.5
Foreign Companies	13	11	51,453,000	— 0.2	10.6
Other Companies	9	8	6,145,000	+ 7.4	9.4
Totals	834	627	$2,280,654,000	+ 8.4%	7.6%

Figures compiled by *Exchange.*

Plant Expansion

It is doubtful that the average person realizes the extent to which the industrial plant in the United States in being expanded. According to *Business Week* more money has been appropriated or budgeted for plant expansion since the beginning of the year than all of the new plant expenditures prior to Pearl Harbor combined. The latter amounted to $6 billion, of which $5 billion was Federally financed. Since then additional appropriations have totaled $7 billion, including nearly $4 billion in the new Army budget estimate. Chrysler has been awarded $100,000,000 for the construction of a new bomber plant at Chicago; Republic Steel now has under construction four new blast furnaces which will increase capacity more than 35 per cent, and has a fifth planned; Crane Co. will spend $6,000,000 this year to expand production of cast steel valves; and Mathieson Alkali Works will, under a contract with the Defense Plants Corp., construct a new magnesium plant at a cost of $22,500,000, and have a capacity of 36,000,000 pounds of magnesium annually. And so on. What disposition will be made of all this addditional plant capacity after the war is over may well pose a considerable problem, but right now it means a vital contribution to the success of our war efforts, and that is our biggest concern.

Continental Gas & Elec., 5's 1958

Now quoted some eight points under their 1941-42 highs, the Continental Gas & Elec. 5's 1958 offer the income investor a sound medium grade commitment at a somewhat better-than-average yield. Continental Gas & Electric Co., functions as a sub-holding company with control vested with United Light & Power Co., through a subsidiary, United Light & Railways Co., through ownership of 99.59 per cent of the common stock. Principal operating subsidiaries of Continental Gas & Electric include Kansas City Power & Light Co., Columbus & Southern Ohio Electric Co., and Iowa Nebraska Light & Power Co., with revenues derived principally from the sale of electric services. The bonds in question are outstanding in the amount of $50,700,000, and while they are not secured by mortgage, indenture provisions are conservative and safeguard against the issuance of prior liens. According to the company's most recent report total consolidated assets were carried at $229,358,592, while funded debt in addition to the debentures amounted to $84,336,000. For the twelve months to Sept. 30, last, all fixed charges were covered 1.59 times, and coverage over the past five years has averaged better than 1.5 times. The parent company is in the process of adjusting capitalization and holdings in compliance with the Public Utility Act, but developments on this score are unlikely in any way to affect adversely the bonds in question.

So They Say

Figures covering all branches of retail trade for January disclose the extent to which the consumers have indulged themselves in "scare" buying. . . . U. S. Rubber last year charged off $1,400,000 to cover estimated damage to plantations in the Far East. . . . Earnings of Consolidated Oil for 1941 are estimated at about $1.35 a share. . . . Scotch whiskey, with British output more than halved, may be rationed.

Five High Yield Stocks

With Earnings Three Times Dividends

BY STANLEY DEVLIN

Eagle-Picher Lead

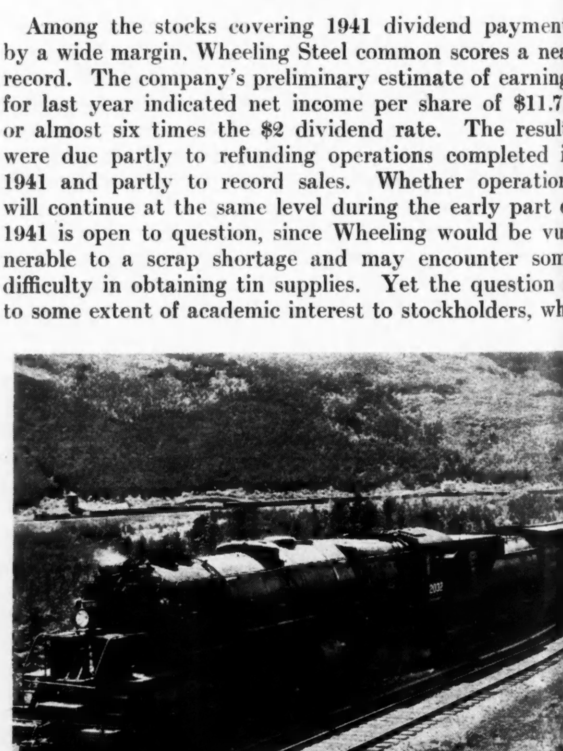
Recent increases in the ceilings on lead and zinc prices should provide the basis for a substantial improvement in the financial position of Eagle-Picher Lead. At prices prevailing in 1941, earnings are estimated to have approximated $1.80 a share, or about three times last year's dividend of 60 cents. Had the 1-cent advance in the zinc price made late last fall and the recent increase in the lead price from 5.85 to 6.50 cents a pound been in effect, however, revenues might have been larger by as much as $3.50 a share, assuming an increase in production of approximately 25 per cent over the 110,881 tons of zinc and 18,405 tons of lead produced in 1940.

Revenue gains should be even larger in 1942, since the company can probably succeed in expanding output moderately, and although rising taxes and wage costs will undoubtedly limit earnings gains, prospects of meeting impending financial problems should be materially improved. Eagle-Picher's 894,076 shares of common and 5,489 shares of $6 preferred are preceded by bank loans of $3,500,000 due 1943-47 and purchase money obligations of $2,694,351 incurred in connection with the acquisition of the important Commerce Mining & Royalty properties in 1938. To meet this the company had net working capital of $8,625,980 on June 30, 1941. A large part of current assets were in inventories, however, with cash totaling only $2,679,781. Even if it is assumed that net income in 1942 does not exceed $2.50 a share, the rise in revenues should permit considerable progress in building up cash and reserves for the purpose of meeting maturing obligations. While this may temporarily restrict hopes of a higher dividend, it should strengthen the equity of the common stock. Eagle-Picher's common shares recently sold at a price of 8. The company's business consists of the mining and smelting of zinc and lead ores and the manufacture of white and blue lead, zinc oxide, waterproofing and other materials, sulphuric acid and other products.

Although the manufacturing division provides a stable background under normal conditions, earnings are comparatively small in comparison with mining operations, which in turn are markedly influenced by metal prices. The company is the second largest producer of zinc and fabricator of lead in the United States. Prior to 1939 lead production was inadequate for fabrication needs, but since 1938, when the large zinc and lead properties of the Commerce Mining & Royalty were acquired, zinc production has been more than sufficient and a considerable portion is sold in the open market. Mines are owned or leased in Missouri, Kansas, Montana, Oklahoma and Arizona. A lead smelter with a monthly capacity of 3,000 tons is located at Galena, Kansas, and the company owns two zinc smelters, with a capacity of 4,400 tons of zinc monthly each. The Central milling plant at Commerce, Oklahoma, has a capacity of 10,000 tons of ore daily. Oil and gas fields are owned near Henryetta, Okla. Under normal conditions the building industry absorbs the bulk of the company's fabricated products, which now, however, are going largely for defense.

Wheeling Steel

Among the stocks covering 1941 dividend payments by a wide margin, Wheeling Steel common scores a near record. The company's preliminary estimate of earnings for last year indicated net income per share of $11.71, or almost six times the $2 dividend rate. The results were due partly to refunding operations completed in 1941 and partly to record sales. Whether operations will continue at the same level during the early part of 1941 is open to question, since Wheeling would be vulnerable to a scrap shortage and may encounter some difficulty in obtaining tin supplies. Yet the question is to some extent of academic interest to stockholders, who



Great Northern Photo

may look forward with reasonable assurance to larger distributions this year, and who, in addition, are protected by the relatively high invested capital option, which is sufficient to permit a higher dividend, even in the event of a straight invested capital tax.

Except for such temporary difficulties as may be occasioned by scrap and tin shortages, Wheeling Steel should continue to operate at capacity for the period of the emergency. Normal business consists largely of tinplate, sheets and strip, principal customers being the canning and building industries, with jobbers and the auto trade next in line. Civilian outlets, however, were almost entirely eliminated at the year end, 99 per cent of the 315,654 ton backlog of unfilled orders being traceable either directly or indirectly to the war effort. Earnings are subject to wide fluctuations, since the presence of $36,000,000 first mortgage 3½s provides a high leverage factor which can be translated into wide gains for the 363,166 shares of $5 cumulative convertible preferred and 569,674 shares of common in times of near capacity operations. Annual capacity is estimated at around 1,960,000 tons of ingots. Operating efficiency has been increased in recent years by abandonment of old style hand-mills. Sales have exceeded the 1929 peak in each of the last three years and net income of $8,506,304 in 1941 was also the largest in the company's history. The stock was recently quoted at 27, or only 2.3 times 1941 earnings. The 1941-42 range was 30¾-21¼.

Wheeling Steel Photo

Great Northern

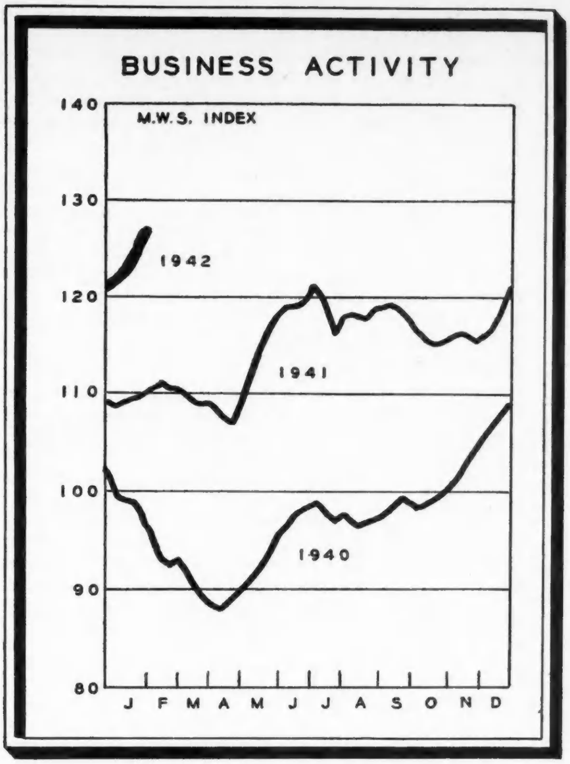
Stockholders of Great Northern enjoy the unusual distinction among owners of rail equities of being able to look forward to a possible modest increase in dividends with reasonable assurance. Like many other roads, the system is faced with substantial near-term maturities, with approximately $99,000,000 due in 1946, but unlike some the adequate financial strength and impressive earnings prospects suggest that, despite a conservative financial policy, the well protected 1941 dividend rate may be exceeded this year. In spite of higher operating expenses, an $8,000,000 increase in maintenance, a $4,500,000 higher tax bill and dividend distributions of $5,000,000, Great Northern's finances, operations and earnings were at the best levels in a decade in the year just ended.

Net income rose to the highest point since 1930, amounting to $6.72 a share as compared with $4.08 in 1940 and covering the $2 dividend more than three times. Net working capital on November 30, 1941, was $26,291,000, or approximately $6,611,000 more than at the end of the previous year. Cash totaled $30,800,000, as compared with $24,880,000. Carloadings for 1941 showed a gain of more than 18 per cent over 1940, with ore shipments at record levels. These gains, though perhaps less marked in some instances, are expected to continue through 1942, as the system taps important mining, agricultural and industrial districts which should be favored by war activity.

Ore shipments will probably set another record, although some difficulty may arise in connection with lake cargo space. Agriculture should be stimulated by the Government's program, although it is too early to predict the extent of the crop movement. Increased needs of building materials for the construction of additional defense plants and for emergency housing should hold lumber shipments at a high level. Considerably larger loadings for the northwest area are anticipated, because of the practical cessation of intercoastal shipping through the Panama Canal, the demands of the armed forces in the Pacific and the high rate of industrial activity in that territory. Heavy maintenance expenditures will probably be continued in 1942, but the past maintenance policy and the excellent condition of the roadway and equipment should permit a high degree of operating efficiency and allow a good part of revenue gains to be carried through to net. Costs and taxes will increase, but the recent wage advances, which are estimated as costing the road around $1.50 a share, should be largely absorbed in the event of a rate increase or by traffic gains. Although financial policies will continue conservative, a moderate rise in dividend distributions is possible. The stock, which recently sold at 24½, as compared with a 1941-42 range of 28½-18¼, provides a yield of over 8 per cent.

Bath Iron Works

As one of the companies threatened by the Congressional investigation of shipbuilding profits, Bath Iron Works may temporarily lack the attraction of some other stocks providing an equally wide margin of coverage of the 1941 dividend. Yet careful attention to the Washington discussion leads to the conclusion that concern over the company's prospects may be overdone. What will result from the investigation has not been revealed, but the two most probable alternatives seem to be limitation of profits by a small cost-plus fee or by a high invested capital tax. In the latter case, Bath would fare badly, since its capital exemption on a 6 per cent basis is only 63 cents a share. Profits could still be substantial, however, if limited to 2 or 3 per cent on contracts after taxes. Bath's backlog of uncompleted orders is enormous. Amounting to $148,809,221 on September 30, 1941, it will probably be increased greatly as the result of the enlarged naval construction program. Output has been expanding stead- (*Please turn to page* 569)



CONCLUSIONS

INDUSTRY—War production in January reached 25% of national income.

TRADE—Panic buying of scarcity goods passes peak.

COMMODITIES—Political factors dominate price movements. Threat to sell loan stocks creates uneasiness.

MONEY AND CREDIT—Sharp gain in commercial borrowings. Currency circulation continues uptrend.

The Business Analyst

Per capita **Business Activity** has risen another point since our last issue, with all components of this publication's index save **Bituminous coal** production, reporting better-than-normal seasonal gains. For January, the index reached 124.6% of the 1923-25 average compared with 119.8 in December and 109.6 for January, 1941. Without compensation for population growth, the index rose in January to 147% of the 1923-25 average, against 141 for December and 128 in January 1941. Defense expenditures in January climbed to $2,101 million, an increase of $102 million over December and nearly four times the outlay twelve months earlier. Defense bond sales in January set a new high at $1,060 million.

* * *

The first 71 companies to report for 1941 reveal an increase over 1940 of 16% in net profits after taxes, though fourth quarter profits were generally lower than a year earlier. Despite this favorable record for the twelve months, dividends this year may not be quite so liberal as last year, owing to smaller cash holdings and larger inventories and floating debt; but it is absurd to suppose, as the gloom mongers would have us believe, that profits will decline seriously during the war. Taxes will climb, of course; but so will prices under the

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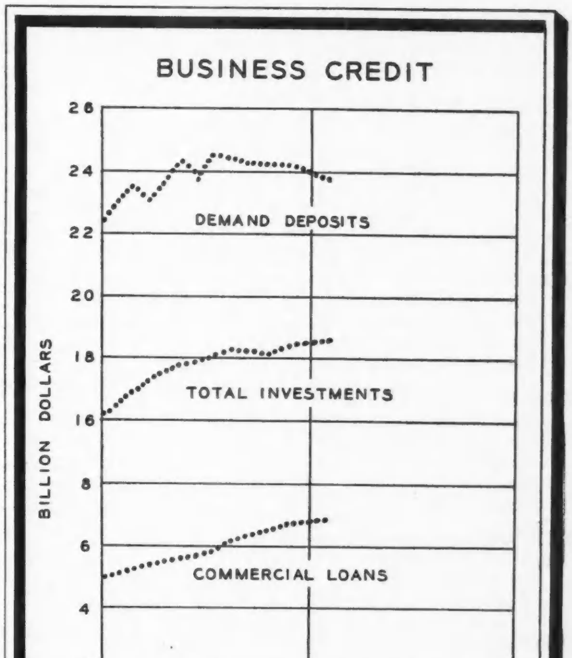


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Jan.	167	168	139
INDEX OF PRODUCTION AND TRADE (b)	Dec.	110	111	102
Production	Dec.	117	117	105
Durable Goods	Dec.	123	124	103
Non-Durable Goods	Dec.	113	112	106
Primary Distribution	Dec.	105	107	95
Distribution to Consumers	Dec.	98	100	101
Miscellaneous Services	Dec.	105	104	96
WHOLESALE PRICES (h)	Dec.	93.6	92.5	80.0
INVENTORIES (n. i. c. b.)				
Inventories	Nov.	156.9	154.3	124.3
New Orders	Nov.	237	237	213
Shipments	Nov.	201	206	150
COST OF LIVING (d)				
All Items	Dec.	93.4	92.9	85.8
Food	Dec.	92.6	92.2	78.2
Housing	Dec.	89.9	89.5	87.5
Clothing	Dec.	80.1	79.6	73.0
Fuel and Light	Dec.	90.3	90.2	86.5
Sundries	Dec.	102.8	101.9	98.1
Purchasing Value of Dollar	Dec.	107.1	107.6	116.6
NATIONAL INCOME (cm)†	Oct.	$8,262	$8,064	$6,812
CASH FARM INCOME†				
Farm Marketing	Dec.	1,147	1,233	772
Including Gov't Payments	Dec.	1,230	1,301	842
Total, First 11 Months	Dec.	11,121	......	8,333
Prices Received by Farmers (ee)	Dec.	143	135	98
Prices Paid by Farmers (ee)	Dec.	144	143	128
Ratio: Prices Received to Prices Paid (ee)	Dec.	99	94	79
FACTORY EMPLOYMENT (f)				
Durable Goods	Dec.	144.0	143.7	117.6
Non-durable Goods	Dec.	125.4	125.7	115.7
FACTORY PAYROLLS (f)	Dec.	169.8	165.2	122.4
RETAIL TRADE				
Department Store Sales (f)	Jan.	130	110	101
Chain Store Sales (g)	Dec.	157	151	128
Variety Store Sales (g)	Dec.	160	153	140
Rural Retail Sales (j)	Nov.	186	167	138
Retail Prices (s) as of	Nov.	107.5	106.2	93.7
FOREIGN TRADE				
Merchandise Exports†	Oct. & Nov.	$1,157	......	$671
Cumulative year's total† to	Nov. 30	4,492	......	3,703
Merchandise Imports†	Oct. & Nov.	585	......	430
Cumulative year's total† to	Nov. 30	3,002	......	2,372
RAILROAD EARNINGS				
Total Operating Revenues★	Dec.	$479,560	......	$381,937
Total Operating Expenditures★	Dec.	352,532	......	266,149
Taxes★	Dec.	33,606	......	26,809
Net Rwy. Operating Income★	Dec.	80,549	......	78,851
Operating Ratio %	Dec.	73.51	.....	69.68
BUILDING Contract Awards (k)	Jan.	$317	$432	$305
F. H. A. Mortgages				
Selected for Appraisal†	Dec.	14	73	17
Accepted for Insurance†	Dec.	12	56	13
Premium Paying†	Dec.	19	77	18
Building Permits (c)				
214 Cities†	Dec.	87	87	99
New York City†	Dec.	7	5	15
Total, U. S.†	Dec.	94	92	114
Engineering Contracts (En)†	Dec.	$355	$349	$399

PRESENT POSITION AND OUTLOOK

(Continued from page 563)

impact of heavier deficit spending, and the margin between prices and costs will continue to be fairly satisfactory. Price ceilings can and will be adjusted upward, as OPA has already demonstrated in more than one instance.

* * *

The self seeking which prompts the organized half of our population, farmers and union labor, to plunder the unorganized half through the device of ever mounting demands which inflate living costs has reached the proportions of a national scandal at a time when our country is fighting for its very existence. **Farm income** in December was 40% larger than for the like month of 1940, and the weekly **wages** of factory workers were up 34%; yet the total **national income,** including factory wages and farm income, rose only 24%. Dividend disbursements, a target of demogogic agitation, were only 9% larger last year than in 1940. **Factory employment** in December was 14% above last year, the only industries reporting a decrease being **automobiles** (down 11%) and anthracite mining (off 4%).

* * *

Wholesale prices have again resumed their advance and are now 19% above last year. Omitting farm products and foods (up 40% and 28%, respectively) the year's advance has been only 12%. Some check to rising commodity prices may result from the President's order to release U. S.-owned cotton, wheat and corn to war production agencies directly, if not over-ruled by the farm bloc; but even these huge surpluses are likely to be used up before the war ends.

* * *

The nation's total **retail sales** in December amounted to $5.5 billion, an increase of 11% over the like month of 1940, with durable goods up 5% and nondurables 14%. **Wholesale sales** in December were 33% above the previous year, with sales for all of 1941 up 31% and year-end inventories up 29%. **New orders** booked by manufacturers during December were only 3% above the like month of 1940; but **shipments** rose 32%. **Department store sales** in the week ended Jan. 31 were 29% ahead of last year, against an increase of 35% for four weeks. **Chain store sales** in January were 35% above last year, with **mail order sales** up 33% and **variety stores** 30%.

* * *

January **railroad** earnings compared unfavorably with last year, owing to higher wages. February earnings will be helped a little by passenger far increases, which went into effect on the tenth; but full restoration of last year's earning power must await establishment of higher freight rates. War production should swell traffic in the second half.

* * *

Eighty per cent of the nation's **building** activity is now war work, against an average of 50% last year. Heavy **engineering construction** awards in the week ended February 6 were 72% ahead of the like period last year, compared with an increase of only 16½% for the year to date.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Jan.	7,129	7,164	6,928
Pig Iron Production in tons★	Dec.	5,012	4,703	4,548
Shipments, U. S. Steel in tons★	Dec.	1,846	1,624	1,545
AUTOMOBILES				
Production				
Factory Sales	Nov.	352,347	382,000	487,352
Total First 10 Months	Nov.	4,561,970	......	3,985,764
Registrations				
Passenger Cars, U. S. (p)	Nov.	163,126	165,485	301,430
Trucks, U. S. (p)	Nov.	35,985	41,352	46,618
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Jan.	397	383	383
Shipments, U. S. & Canada★ (tons)	Jan.	372	405	377
Mill Stocks, U. S. & Canada★ (tons)	Jan. 31	155	131	189
LIQUOR (Whisky)				
Production, Gals.★	Dec.	13,632	11,828	12,316
Withdrawn, Gals.★	Dec.	6,832	8,143	1,649
Stocks, Gals.★	Dec. 31	511,211	505,557	479,102
GENERAL				
Paperboard, new orders (st)	Dec.	521,866	527,829	393,026
Machine Tool Output (millions of $)	Nov.	85.1	74.6	53.8
Railway Equipment Orders (Ry)				
Locomotives	Jan.	25	63	165
Freight Cars	Jan.	8,479	1,519	11,669
Passenger Cars	Jan.	......	......	38
Cigarette Production†	Dec.	16,201	17,141	13,815
Bituminous Coal Production★ (tons)	Jan.	44,070	46,667	48,540
Portland Cement Shipments★ (bbls.)	Dec.	11,511	13,724	8,192
Commercial Failures (c)	Dec.	898	842	1,086

PRESENT POSITION AND OUTLOOK

Automotive plants have completed their quotas of passenger **car production,** and henceforth will turn out only war equipment and heavy **trucks.** Weekly reports on production will be discontinued. Automobile and parts plants have become a closely interwoven cooperative industry for producing war goods. C. I. O. will soon launch a drive for still higher wages. Union members thus seek immunity from taxes which others must pay.

* * *

Machine tool output last year was valued at around $800 million, or 80% above 1940. All out war production will call for $2 billion-worth of tools this year. **Bituminous coal** Commission has conceded a 10% increase in weighted average cost of production upon which the minimum price is based. Production of 503,000,000 tons last year was the largest since 1929; prices were steady, and profits of the industry were the best in years.

* * *

Whiskey production in December was 17% above the like month of 1940; nut withdrawals were off 7%. For the first time in a decade the **cigaret** industry is obliged to seek additional permanent capital to carry larger and more costly inventories, necessitated by bigger sales and higher leaf prices. **Portland cement** output in December was 20% above the like month of 1940.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Feb. 7	126.6	127.2	110.8
ELECTRIC POWER OUTPUT				
K. W. H.†	Feb. 7	3,474	3,468	2,989
TRANSPORTATION				
Carloadings, total	Feb. 7	784,060	815,567	710,196
Grain	Feb. 7	41,315	47,629	28,730
Coal	Feb. 7	153,047	155,650	149,394
Forest Products	Feb. 7	47,146	48,764	38,512
Manufacturing & Miscellaneous	Feb. 7	352,947	372,350	302,755
L. C. L. Mdse	Feb. 7	151,718	151,786	153,324
STEEL PRICES				
Pig Iron $ per ton (m)	Feb. 10	23.61	23.61	23.45
Scrap $ per ton (m)	Feb. 10	19.17	19.17	20.00
Finished c per lb. (m)	Feb. 10	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Feb. 14	97.5	96.5	97.0
PETROLEUM				
Average Daily Production bbls.★	Feb. 7	4,337	3,871	3,590
Crude Runs to Stills Avge. bbls.★	Feb. 7	3,853	3,848	3,616
Total Gasoline Stocks bbls.★	Feb. 7	100,224	97,810	92,511
Fuel Oil Stocks bbls.★	Feb. 7	90,859	91,189	97,782
Crude—Mid-Cont. $ per bbl	Feb. 14	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Feb. 14	2.23	2.23	1.72
Gasoline—Refinery $ per gal	Feb. 14	.083	.08	.05⅜

PRESENT POSITION AND OUTLOOK

Electric power output is running about 16% over last year, the same margin of annual increase as reported for all of 1941. Installed capacity of the industry at the end of last year totaled 44,000,000 kilowatts, an increase of 2,385,000 kilowatts, or 5.7% during the year. Net profit after taxes reported by the industry for the fourth quarter was 3.8% below the like period in 1940, against a decline of only 2% for all of 1941.

* * *

Output of finished **steel** last year totaled 65,362,000 net tons—34.5% above 1940. Ingot capacity at the close of 1941 reached the new peak of 88,570,000 tons, an increase of 4,418,000 tons during the year. War orders are currently larger than total capacity; so that steel for civilian use—except for railroad maintenance and equipment building—is virtually unobtainable. OPA is opposed to higher wages now sought by the C. I. O. steel workers union and suggests that, if demand is granted, the increase be paid in defense bonds; but this would raise production costs as much as a cash increase.

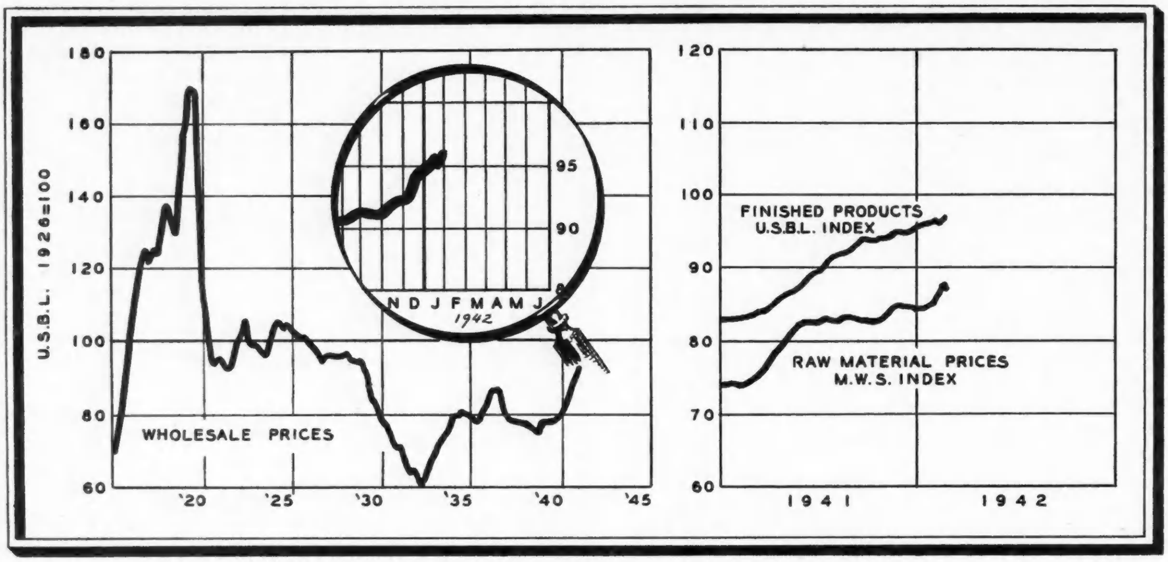
* * *

A few **oil** companies are adding tire retreading to their other lines of business. Industry's earnings before taxes this year will top 1941, despite probable rationing in the East.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

Trend of Commodities

Washington developments again assumed a major role in affecting price trends of those commodities which still enjoy a "free" market. The farm bloc, the most aggressive group in Congress, rallied its forces last week and prepared to present legislation whch would prohibit the Commodity Credit Corp., from selling loan stocks of wheat cotton and other farm products at prices below parity. This proposal, known as the Gillette-Bankhead bill, had a rallying effect on farm prices as the past week drew to a close and reports indicated that it would be tacked on the OCD appropriation measure as a rider. This technique obviously is designed to forestall Presidential vetoe, as the OCD measure is assured of prompt approval. Without adequate means of controling the basic prices of food and other farm commodities, it is difficult to see how Price Commissioner Henderson can prevent a rise in retail prices to the consumer when present stocks of distributors acquired a lower prices, are exhausted. Meanwhile of course, the farmer is cashing in handsomely, although many farmers themselves do not support the Congressional attempts to subsidize them beyond reason.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Feb. 7	Feb. 14		Feb. 7	Feb. 14
28 Basic Commodities	165.1	165.2	Domestic Agricultural	179.2	180.2
Import Commodities	160.9	160.9	Foodstuffs	181.7	182.1
Domestic Commodities	167.8	168.0	Raw Industrial	153.5	153.4

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Feb. 13	18.43	18.50	10.24
May	Feb. 13	18.58	18.62	10.21
Spot	Feb. 13	20.04	20.07	10.77
(In bales 000's)				
Consumption, U. S.	Dec.	887	850	777
Exports (Ex-Linters)	Oct.	166,668	189,215	......
Imports (Ex-Linters)	Oct.	40,696	25,134	......
Government Crop Est.	Dec. 1	10,976	......	12,686(ac)
Active Spindles (000's)	Dec.	10,240	9,915	11,931
WHEAT				
Price cents per bu. Chi. closing				
May	Feb. 13	129¼	128⅝	79½
July	Feb. 13	130¾	130⅛	74⅛
Gov't Crop Est. bu. (000's)	Dec. 1	945,937	......	812,374(ac)
CORN				
Price cents per bu. Chi. closing				
May	Feb. 13	87	86¼	60⅞
July	Feb. 13	88¾	88	60⅝
Gov't Crop Est. bu. (000's)	Dec. 1	2,672,541	......	2,460,624(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The Census Bureau disclosed the fact that January domestic consumption totaled 945,909 bales. The figure was somewhat disappointing and about 20,000 bales under previous estimates. Nevertheless it was the second largest monthly consumption figure on record. Mill stocks at the end of January were the largest in history, with spinners accumulating 101,000 bales during the month. Much of the recent buying by the trade was attributed to mill price fixing operations under the impetus of the substantial volume of government contracts which are being placed.

* * *

Wheat. Prices of all leading grains recorded net gains for the week, influenced principally by approval of the Senate Agricultural Committee of legislation to restrict sale of government loan stocks at prices below parity. Traders, however, appeared disposed to await developments, on the possibility that strong Administration opposition to such legislation would materialize.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Feb. 13	12.00	12.00	12.00
Exports f. a. s. N. Y.	Feb. 13	11.00	11.00	10.25
Refined Prod., Domestic*	Dec.	86,961	84,718	85,135
Refined Del., Domestic*	Dec.	137,368	123,168	112,681
Refined Stocks, Domestic*	Dec. 31	75,564	72,352	142,772
TIN				
Price cents per lb. N. Y.	Feb. 13	52	52	51
Tin Plate, price $ per box	Feb. 13	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	Dec.	7,700	8,355	9,200
U. S. Visible Supply† as of	Nov. 30	2,186	1,127	4,362
LEAD				
Price cents per lb., N. Y.	Feb. 13	6.50	6.50	5.65
U. S. Production*	Dec.	57,181	48,930	61,906
U. S. Shipments*	Dec.	50,680	45,980	56,755
Stocks (tons) U. S., as of	Dec. 31	20,185	13,671	40,927
ZINC				
Price cents per lb., St. Louis	Feb. 13	8.25	8.25	7.25
U. S. Production*	Jan.	79,213	78,635	66,121
U. S. Shipments*	Jan.	79,413	77,755	68,844
Stocks, U. S. as of*	Jan. 31	23,862	24,062	14,859
SILK				
Price $ per lb. Japan xx crack	Feb. 13	3.57	3.57	2.56
Mill Dels. U. S. (bales)	Nov.	5,676	4,160	36,374
Visible Stocks U. S. (bales) as of	Nov. 30	55,486	57,508	60,330
RAYON (Yarn)				
Price cents per lb.	Feb. 13	53	53	53
Consumption (a)	Jan.	41.2	39.3	35.0
Stocks as of (a)	Jan. 31	4.7	3.8	8.9
WOOL				
Price cents per lb., raw, fine, Boston	Feb. 13	1.07	1.07	96½
Consumption, period ending (a)	Nov. 30	51,500	60,600	45,800
HIDES				
Price cents per lb. No. 1 Packer	Feb. 13	15½	15½	12
Visible Stocks (000's) as of	Dec. 31	14,309	14,277	13,998
Boot and Shoe Production, Prs.★	Dec.	38,151	34,768	31,624
RUBBER				
Price cents per lb.	Feb. 13	22½	22½	20.62
Imports, U. S.†	Oct.	72,222	83,151	74,716
Consumption, U. S.†	Oct.	60,418	53,655	59,644
Stocks, U. S., as of	Oct. 31	454,711	473,684	235,353
Tire Production (000's)	Dec.	2,967	3,964	4,968
Tire Shipments (000's)	Dec.	2,604	4,048	4,991
Tire Inventory (000's) as of	Dec. 30	4,417	4,043	9,127
COCOA				
Price cents per lb	Feb. 13	8.55	8.55	5.77
Arrivals (bags 000's)	Dec.	190	206	671
Warehouse Stocks (bags 000's)	Feb. 14	1,335	1,330	1,455
COFFEE				
Price cents per lb. (c)	Feb. 13	13⅜	13⅜	8½
Imports, season to (bags 000's)	Dec.	1,110	......	5,062
U. S. Visible Supply (bags 000's)	Jan. 1	2,187	2,024	2,123
SUGAR				
Price cents per lb.				
Raw	Feb. 13	3.74	3.74	2.98
Refined (Immediate Shipment)	Feb. 13	5.45	5.45	4.45
U. S. Deliveries (000's)*	11 mos.	7,360	......	6,324
U. S. Stocks (000's)* as of (rr)	Nov. 30	534	713	582

PRESENT POSITION AND OUTLOOK

Copper. Production in January from domestic sources dropped 114 tons from the December level, while domestic consumption in January was off 8,118 tons. Domestic supplies of refined copper increased 5,807 tons for the month. With copper supplies strictly controlled consumption figures bear scant relation to actual demand.

* * *

Tin. Announcement of drastic curtailment in the use of tin in the manufacture of containers is expected to result in a reduction in the total consumption of primary tin in the United States to 55,000 tons annually from the level of about 100,000 tons last year.

* * *

Lead. Demand for lead continues to run well ahead of supplies being made available. Supplies in the emergency pool are being actively drawn against, but these supplies are not available to many users.

* * *

Zinc. Indications are that supplies of zinc will be adequate for all military purposes for which there is a corresponding supply of other materials. Of February smelter output 40% will be alloted to the emergency pool.

* * *

Silk. Under a sweeping order issued by War Production Board all supplies of silk in the hands of processors has been requisitioned and must be sold to Defense Supplies Corp., at ceiling prices set by OPA.

* * *

Wool. In view of the threat to Australian supplies it is significant that of total domestic consumption of scoured wool last year, 56% was of foreign origin. The consumption of domestic shorn and pulled wools, however, was about double the imported product. Civilian production has recently shown a sharp drop. Military output remains at top speed.

* * *

Hides. Import permits have been issued for fairly large supplies of Argentine and some Brazilian hides. Packers sales to tanners continue to be on the basis of allocations at ceiling prices.

* * *

Rubber. The domestic supply situation will become more stringent by the necessity of supplying Great Britain and Canada, possibly Russia, with vital crude requirements. We have depended upon Malaya for 52% of our needs while Dutch East Indies have contributed 35% of the balance. Synthetic product is looming more and more important.

* * *

Cocoa. It may not be long before cocoa joins the ration list. Arrivals this year to date have been less than 195,000 bags compared with 676,-501 bags a year ago.

* * *

Coffee. With consumption rising sharply and a possible shortage of shipping space threatened, coffee is also a candidate for rationing later on.

* * *

Sugar. Full control over the entire 1942 raw sugar supply was established by W.P.B. All purchases by refiners will be subject to allocations and quotas. Civilian rationing will be ready in the near future.

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. ★—Thousands. NA—Not available. (r. r.)

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Feb. 14	1¼%	1¼%	1¼%
Prime Commercial Paper	Feb. 14	½-¾%	½-¾%	½-¾%
Call Money	Feb. 14	1%	1%	1%
Re-discount Rate, N. Y.	Feb. 14	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Feb. 7	3,652	3,761	2,951
Cumulative year's total to	Jan. 31	17,721	......	14,327
Bank Clearings, N. Y.	Feb. 7	3,505	3,795	3,232
Cumulative year's total to	Jan. 31	16,937	......	14,685
F. R. Member Banks				
Loans and Investments	Feb. 4	30,355	30,342	26,184
Commercial, Agr., Ind. Loans	Feb. 4	6,785	6,778	5,124
Brokers Loans	Feb. 4	425	448	440
Invest. in U. S. Gov'ts	Feb. 4	12,721	12,609	10,378
Invest. in Gov't Gtd. Securities	Feb. 4	2,710	2,709	2,746
Other Securities	Feb. 4	3,683	3,689	3,723
Demand Deposits	Feb. 4	23,457	24,747	22,798
Time Deposits	Feb. 4	5,214	5,241	5,452
New York City Member Banks				
Total Loans and Invest	Feb. 11	12,203	12,137	10,690
Commercial, Ind. & Agr. Loans	Feb. 11	2,700	2,645	1,980
Brokers Loans	Feb. 11	317	290	287
Invest. in U. S. Gov'ts	Feb. 11	5,441	5,465	4,611
Invest. in Gov't Gtd. Securities	Feb. 11	1,475	1,467	1,593
Other Securities	Feb. 11	1,458	1,450	1,440
Demand Deposits	Feb. 11	10,474	10,306	10,691
Time Deposits	Feb. 11	724	733	754
Federal Reserve Banks				
Member Bank Reserve Balance	Feb. 11	12,905	12,849	13,871
Money in Circulation	Feb. 11	11,319	11,231	8,665
Gold Stock	Feb. 11	22,741	22,738	22,130
Treasury Currency	Feb. 11	3,263	3,259	3,100
Treasury Cash	Feb. 11	2,194	2,201	2,212
Excess Reserves	Feb. 11	3,360	3,330	6,330
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Dec.	112	132	389
New Capital	Dec.	59	42	61
Refunding	Dec.	52	89	328

COMMENT

Another increase in the amount of currency in circulation, the fourth consecutive weekly increase brought the total figure up to a level of $95,000,000 above Christmas week which normally sees the peak in currency circulation. Even if allowance is made for the greater demands occasioned by the Lincoln's birthday holiday, it is to be noted that the gain in the most recent week was $50,000,000 more than in the corresponding week of 1941.

* * *

In the latest reported week **New York City Member** banks reported an increase of $55,000,000 in commercial loans. This was the largest weekly increase in more than five years and, of equal significance, was the fact the gains were broadly spread and did not represent one or two large borrowers. This trend appears likely to continue in response to the stimulus of war contracts, new plant construction, etc. Later, however, the trend of commercial borrowings may follow the same pattern as in Great Britain where recently there has been a decline in such loans.

* * *

As generally expected there will be a further tightening in instalment credit. Pending before the **Federal Reserve Board** is a revision in the previous regulation governing this type of credit. It is expected that down payments will be increased and the maturity of instalments shortened. It is also expected that the list of articles embraced by these regulations will be increased to include watches, jewelry and possibly clothing and floor coverings.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1942 Indexes High	Low	Feb. 7	Feb. 14
270 COMBINED AVERAGE	48.6	43.9	48.5	47.6
3 Agricultural Implements	82.6	72.7	82.6	81.2
9 Aircraft (1927 Cl.—100)	172.6	151.4	154.1	151.4
4 Air Lines (1934 Cl.—100)	245.0	228.0	244.4	245.0
5 Amusements	31.7	29.7	31.2	30.9
13 Automobile Accessories	79.3	70.7	76.7	73.8
13 Automobiles	8.8	7.1	8.8	8.8
3 Baking (1926 Cl.—100)	6.1	5.1	6.1	5.5
3 Business Machines	94.1	81.7	94.0	92.4
2 Bus Lines (1926 Cl.—100)	64.6	38.2	62.2	64.6B
6 Chemicals	156.3	139.8	145.5	139.8
14 Construction	19.6	17.0	19.3	19.1
5 Containers	158.8	150.0	158.0	154.0
8 Copper & Brass	75.1	69.2	72.8	69.8
2 Dairy Products	27.7	25.8	27.6	27.2
6 Department Stores	16.3	15.2	16.2	15.2
6 Drugs & Toilet Articles	43.5	37.9	42.2	40.9
2 Finance Companies	114.0	99.5	114.0	112.9
7 Food Brands	78.2	72.5	73.3	72.5
2 Food Stores	43.7	41.0	42.0	41.0
4 Furniture	28.1	24.5	28.1	27.1
2 Gold Mining	455.2	331.3	436.0	404.8
6 Investment Trusts	16.5	15.0	16.5	16.2

(Nov. 14, 1936, Close—100)	1942 Indexes High	Low	Feb. 7.	Feb. 14
100 HIGH PRICED STOCKS	51.96	49.58	51.02	49.58
100 LOW PRICED STOCKS	38.78	33.57	38.05	37.08
3 Liquor (1932 Cl.—100)	159.9	154.0	157.9	154.3
8 Machinery	83.8	78.8	82.2	78.8
2 Mail Order	53.9	49.6	53.6	51.0
4 Meat Packing	46.0	36.8	42.5	41.4
9 Metals, non-Ferrous	131.7	101.9	127.5	121.0
3 Paper	11.3	10.5	10.9	11.0
21 Petroleum	74.6	70.9	74.2	72.1
16 Public Utilities	19.1	15.1	18.0	17.1
3 Radio (1927 Cl.—100)	7.0	5.9	6.9	6.8
7 Railroad Equipment	37.9	35.2	37.1	36.7
16 Railroads	9.9	7.6	9.9	9.3
2 Realty	1.9	1.3	1.8	1.9
2 Shipbuilding	112.0	98.8	104.0	98.8b
12 Steel & Iron	65.0	61.2	63.4	62.0
2 Sugar	40.1	34.2	40.0	38.9
2 Sulphur	179.4	168.3	172.5	168.3
3 Telephone & Telegraph	36.0	30.6	35.5	34.2
2 Textiles	34.2	31.1	32.6	31.1
3 Tires & Rubber	9.2	7.9	9.0	9.0
4 Tobacco	55.3	52.0	54.8	52.2
2 Variety Stores	187.2	170.0	181.5	178.0
19 Unclassified (1941 Cl.—100)	109.9	100.0	105.3	101.5

B—New HIGH since 1940. b—New LOW since 1940.

Five High Yield Stocks

(Continued from page 561)

ily and should be stepped up even more when the new $3,200,000 plant, erected in conjunction with the Navy, is placed in operation.

Billings for 1940 totaled $18,128,545, on which profits were $2,052,170. This was equal to 43 per cent on invested capital and 18 per cent on the volume of sales. During the first half of 1941 work performed was at the annual rate of $31,903,000 and net income at the rate of $846,000. In this period, therefore, profits on invested capital were only 11 per cent, while on completed contracts they dropped to 2.7 per cent. Even so, earnings amounted to $1.01 a share, indicating that net might still be substantial if this rate were maintained. Making the tentative assumption that work completed in 1942 may approximate $60,000,000, which may be an underestimate, profits at a cost-plus rate of 2.7 per cent would amount to $1,620,000, or slightly less than $4 a share. While this is under the $4.90 of 1940, it provides good protection for the 1941 dividend of $1.25. The calculation must be adjusted for whatever rate of earnings is placed in effect, but if the contract basis is established, Bath would not be badly off.

Bath Iron Works operates a shipyard at Bath, Maine, consisting of five launching ways, two fitting-out docks, warehouses, machine shops, etc. The present expansion program provides for the construction of two additional ways. Pre-war work concentrated largely on light vessels, such as tugs, tenders, patrol boats for the Coast Guard, trawlers and yachts for private use. Present contracts are largely with the Navy, the September 30, 1941, backlog of uncompleted orders including 25 destroyers and only 3 cargo boats. In addition the 30 per cent owned Todd-Bath Iron Works Shipbuilding Corporation is constructing 30 cargo vessels for the British Government. Unlike many shipbuilders, Bath has a record of small though consistent profits. Dividends were initiated in 1940 with a distribution of 75 cents a share on the common stock. The financial position has been bolstered by the sharp earnings gains of the last three years and bank debt was completely liquidated in 1939 and 1940. The stock recently sold at 16¾ against a 1941-42 range of 24⅞-13⅜.

Weston Electrical Instrument

The expectation of further sales expansion, well controlled profit margins and ready adaptability of facilities to the enlarged arms program provide a promising background for Weston Electrical Instrument. The company makes over 600 types of electrical measuring instruments as well as radio apparatus, which have a wide variety of applications in the armament effort. The problem of converting facilities to war work is negligible. And unit production costs will be minimized as output expands further. Substantial additions to the large backlog, about 80 per cent of which was for defense late last year, are anticipated. Deliveries in 1942 should top last year's high level by a good margin.

Except for a possible sharp increase in taxes, to which the company is vulnerable, earnings should be at record levels and should provide ample coverage for the current $2 dividend. Weston's sales in 1941 were probably the best in the company's history, although lack of data prevents a comparison with years prior to 1937. In spite of income and excess profits taxes of $1,430,000, net earnings for the first nine months amounted to $714,000, or $4.44 a share. With concentration on armaments ironing out the seasonally slow third quarter, profits for the year probably approximated the 1929 record of $970,000 and ranged in the neighborhood of $6 a share of common stock. Normal outlets are the public utility, telephone and automotive fields, although products are sold to a wide variety of industries. Recently the aircraft industry has become the most important customer, and, with the greatly expanded air program, orders from plane manufacturers are expected to more than offset any loss of civilian business. Finances are sound, but a conservative dividend policy will probably be dictated by the necessity of financing expanding output. Although capitalization is small, swings in the price of the shares have been relatively limited since the war began. The stock recently sold at 29.

Mixed Outlook for Metals

(Continued from page 550)

have a large invested capital base. In the event that invested capital should become the sole determinant in the application of excess profits taxes, as some in Washington seem to advocate, the relative attractiveness of the group might well be enhanced on that score alone.

As has been the Government's policy on copper, imports of zinc have been greatly increased with Metals Reserve Co. actively encouraging production not only in this country, but also in South America, Mexico and Canada. Last year the production of zinc from domestic mines ran around 10 per cent higher than the 665,068 ton figure for 1940, according to the Bureau of Mines. Figures on imports are no longer being made available, but for the period covering the first ten months of last year, the figure stood at 182,107 tons. According to the Zinc Institute, 751,943 tons of slab zinc entered domestic consumption during the year, representing an 11.46 per cent increase over a year before. Consumption of zinc in brass during the present year is expected to surpass the record year 1941, with large increases in mill capacity scheduled to meet the heavy ordinance requirements of our armed forces. Thus the year should be featured by new production tops with consumption keeping apace.

Lead, the last of the strategic war metals to be placed under priority control, is also in a tight position. Demand increased tremendously as supplies of copper and zinc were diverted to war use and consumption last year ran well above domestic mined ore alone. The metal is now displacing copper in pipe and

other building essentials to a very large extent and requirements of the Army, Navy and Marine Corps are expected to necessitate further sharp curtailment of civilian use. Already the use of tetra-ethyl lead in gasoline for civilian consumption is being restricted in order to save the product for military planes where its anti-knock qualities are essential.

Probably the tighest situation among the war metals is tin, the supplies of which come largely from the Far East and which presumably will be shut-off for the duration of the war in that theatre. However imports prior to the outbreak of hostilities were at new high levels and by limiting consumption to essentials the reserves on hand should see us through. Bolivian ore is to come in for increased attention and it is hoped that the new refinery being constructed in Texas by the Defense Plant Corp. will prove successful in treating this low grade ore. If it is, we may expect to see tin mining activity in South America and Mexico importantly augmented over coming years.

Those companies relying mainly on production of gold and silver, of which there are several represented in the accompanying tables, cannot be said to be favored by war time conditions. Costs are rising and since these metals have long brought a fixed price, there is little hope for upward adjustments such as have been made in the case of the strategic war items. Thus the outlook suggests a further narrowing of earnings for most in the group, although the concurrent production of lead, zinc and copper will help to some extent.

Consumer Rationing

(*Continued from page* 531)

for savings for defense bonds.

While it is possible to estimate fairly accurately, as we have done in the preceding paragraph, the amount of money income that will be diverted from normal outlet in durable goods to other dispositions, it is quite impossible to make any similar calculation as regards the effects of rationing. It will depend upon the difference between the total money expenditure on all ration items and the money expediture that would normally be made for the same items at the prevailing level of national income. And that's a quiz question for a seer rather than an economist.

Moreover the shift of purchasing power—as distinct from money income—brought about by rationing, would depend partly upon the degree of future price inflation. For rising prices constitute one way of "mopping up" purchasing power that can't find its customary outlets.

Yet at a minimum it is indicated that at least 12 billion dollars of 1942 consumer income will be surplus in the sense discussed here. If fairly stiff rationing is applied to any considerable number of widely used consumer goods, this total could readily be boosted to somewhere between 15 and 20 billions of dollars.

Where would it go?

Probably a substantial percentage will go voluntarily into defense savings bonds—which are being bought now at an indicated annual rate of about 9 billions, even while total consumer spending remains near its peak and before shortages have really begun to block off purchasing power from more than a very few of its normal outlets.

But it must be emphasized that the great bulk of the "surplus" or inflationary income is in the hands of individuals whose total income tax payments are very small. A rounded and effective control plan calls not only for a price law and rationing, but also for a combination of compulsory savings routed into defense bonds and taxes which will mop up many billions of "surplus" purchasing power and thus reduce consuming demand.

Corporate taxes, however proper for other reasons, have nothing but a political relation to this particular problem. Neither can it be met by soaking the rich further nor by imposing the bulk of the coming increased income tax load on the middle classes. That would still leave the major portion of the indicated "surplus" income intact, competing for a reduced supply of goods, pushing up prices.

The answer is compulsory savings plus either a flat withholding tax, without exemptions, or a general sales tax. The familiar arguments against a general sales tax—valid in normal times—no longer make sense. The object is to reduce consumer demand, directly contrary to the object in peace time. To the extent that some foods may be scarce, a sales tax is valid even here. Moreover, a sales tax is more equitable than a withholding tax in that it leaves the consumer with some option as to how much tax he pays.

The greater the "surplus" purchasing power in the hands of consumers, the greater the need for rationing. Moreover, rationing of a limited number of products would tend to create need for rationing others. To put it most simply, if you ration black shoes but don't ration tan shoes, you merely shift purchasing power to, and create scarcity in, tan shoes. It need hardly be said that in the whole field of retail trade the primary problem has shifted from selling to supply; and that, since the Government is most unlikely to come really to grips with this matter of excess consumer buying power, all merchandising enterprises which have goods to sell will do an unprecedented business—until inventories are depleted.

For detailed analysis of the varying prospects of all branches of retail trade, note the article on merchandising companies in the Dividend Forecast section of this issue on subsequent pages.

Twenty Billion Dollars on the Spot

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market for corporate securities. Such an eventuality would be more probable if the capital gains tax were to be revised so as to lower the barriers which now discourage venturesome investment. Municipal securities have been bought primarily for security, and secondarily for income or tax immunity. For some years, the yields on municipal and other high grade obligations have been receding, as indicated by the chart, whereas the current returns on common stocks have been advancing rather rapidly since 1939. However, the table of comparative yields on a tax equivalent basis demonstrates why wealthy investors have not been partial to common stocks in

recent years. Under the 1941 Revenue Act, the Federal income tax rate ranges from 4 per cent to 81 per cent, depending on the amount of income. Suppose an individual with a surtax net income of \$50,000 to \$60,000 purchases some common stock of Cluett, Peabody, which at current prices yields a current return of about 8.95 per cent on the basis of 1941 dividend payments. Dividends derived from this investment would be additional income, and to the extent of \$10,000 would be subject to a normal tax of 4 per cent and a surtax (on income between \$50,000 and \$60,000) of 57 per cent, or a total tax of 61 per cent. In other words, the net return on the Cluett, Peabody stock would be reduced from the current return of 8.95 per cent to 3.49 per cent after allowance for taxes at the rate of 61 per cent. The larger the surtax net income of the individual, the smaller is the actual net return.

Obviously, the wealthy investor is not going to choose preferred stocks and common stocks in particular in preference to tax-free bonds just for the sake of a possible slight improvement in yield on a tax equivalent basis, since the difference in yield does not justify the greater risk involved in purchase of equity issues, *unless* the wealthy investor considers the prospect of capital appreciation sufficiently attractive. And that is where the capital gains tax comes in. Happily, this peculiarly obnoxious form of taxation has some possibility of being modified. Under a bill introduced into the House in January, capital gains and losses would be segregated; capital losses would be an offset only against capital gains; there would be no distinction between long-term and short-term investment; net capital gains would be taxed at a flat rate of 10 per cent; and net capital losses could be carried forward for two years.

Revision of the capital gains tax has been advocated for a number of years, but is now understood to be receiving serious consideration by the Treasury Department. Reputedly, Treasury and Congressional tax experts have been impressed with the fact that the capital gains tax as presently constituted has long since reached the point of diminishing returns, and that revision would increase the volume of security transactions and thus bring in larger revenues from capital gains and stock transfer taxes. In view of longer term fiscal uncertainties, such revision would probably encourage wealthier investors to diversify portfolios through purchase of corporate securities, whether or not income from State and municipal obligations should be made subject to taxation.

Examining Basis for Improved Market Status of Rail Securities

(*Continued from page 542*)

its funded debt, but might make a token payment on the preferred. Gulf Mobile & Ohio preferred, which becomes cumulative on July 1, may pay the full \$5 rate this year, as compared with the \$2.50 distributed in 1941.

Prospects of increased returns from common holdings are perhaps more numerous than in the case of preferred stocks but are more uncertain. The Santa Fe, which earned \$9.60 in 1941, has already indicated that distributions may be larger this year by declaring \$1, payable in March. Earnings of the Atlantic Coast Line are sufficiently impressive to give rise to hopes for more than the \$1 paid last year. Reading, too, might increase its dividend rate. Louisville & Nashville, Pennsylvania and Great Northern could probably pay more than in 1941 and still pursue a conservative fiscal policy. Given a continuation of present conditions, Gulf Mobile & Ohio might make a common distribution and Erie might break all precedent and declare something on its common stock. In most of these instances, however, there is much uncertainty.

Neither common nor preferred dividends are, of course, possible in the case of the reorganization roads. These systems, in fact, form a special category, now that reorganization proceedings have been slowed up by Court rejection of the St. Paul plan. With the possible exception of the Chicago & Northwestern, no major railroad is expected to emerge from bankruptcy this year, although the Erie case suggests that, once a proper basis for determining values has been worked out, reorganization proceedings will again speed up.

This temporarily eliminates much of the interest that formerly attached to securities of bankrupt roads based on the expectation of a favorable exchange for stocks and bonds of the reorganized companies.

In spite of this, however, the reorganization rails still have some attraction of an income or speculative nature. Possibilities of higher prices and larger returns are inherent where rising net might warrant Court approval of resumed or greater interest payments. Distributions were authorized last year in the case of the New York, New Haven & Hartford, Missouri Pacific, Chicago & North Western, St. Louis Southwestern and St. Louis-San Francisco. As all these roads should do at least as well in 1942, payments should continue and, in some cases, possibly be increased. One or two additional marginal roads, like Chicago, Rock Island & Pacific and the Seaboard Airline, might be added to the roster, if the present improvement in earnings continues.

Speculative possibilities also may exist in some of the preferred and common stocks of the bankrupt roads. Such cases differ materially. In some, like the New York, New Haven & Hartford and Chicago, Rock Island & Pacific, equity values appear to be non-existent and both preferred and common stocks are expected to be wiped out when the reorganization is completed. In others minor values seem to be applicable to the preferred shares. In a few the common and preferred may yet each get relatively generous treatment. However, in almost all, rising earnings promise, on occasion, to create hopes that the earnings and financial positions have undergone sufficient improvement to suggest that a more favorable distribution of new securities will be made when reorganization plans are finally consummated. While there is very little justification for thinking that such hopes will be realized, they could form the background for

purely speculative advances in the quotations for the shares.

A second special category consists of the roads recently emerged from reorganization. These systems, under recent Court decisions, have encountered an unusual problem in determining their excess profits tax status. Clarification of the issue may be necessary in the Revenue Act of 1942. In the meantime, it has still to be determined whether the newly reorganized Chicago Great Western, Chicago & Eastern Illinois and Wabash may delay the initiation of dividends on their new preferred stocks or start payments in April or May on the regular scheduled dates.

Summarizing the rail situation from the investment standpoint, the war has provided the basis for a marked, though possibly temporary, change in status in comparison with many other industrial groups. An unusual series of events, including the elimination of coastwise shipping, a probable though gradual decrease in truck competition and the possibility of higher freight rates, has improved the prospects for increased loadings, revenues and earnings beyond those originally anticipated as a result of the United States entry in the war. To these is added the favorable position of the railroads in relation to the excess profits tax, which has recently been emphasized by statements of the President and Secretary Morgenthau in favor of restricting the excess profits credit to the invested capital option. These considerations, superimposed on the already sound background for rail issues, have given further impetus to the change in investment and speculative sentiment and strengthened the position of the carriers as market leaders.

Although rail securities will continue to sell at low levels in relation to earnings, selective opportunities still exist for participating in their improving prospects. Many issues afford a high yield. The interest of the investing public is at the highest point in years. And prices are still low in comparisons with earnings.

The widely varied background of the different rail systems offers an opportunity for everyone to participate, from the conservative investor to the speculator who is willing to accept substantial risks. Large percentage appreciation is possible in certain defaulted issues under favorable conditions. Appreciation potentialities and income may be found in some of the lower and medium grade bonds. Enhanced return and appreciation are offered by certain of the preferred and junior equities.

Of the various groups, however, the speculative interest-paying bonds seem to be among the best situated. Their position in relationship to the excess profits tax is somewhat better than the equity securities and is more clearly defined than that of many of the reorganization issues. Furthermore, their relative strength is constantly being improved by the tendency to use surplus cash obtained by the current high rate of operations to pay off bank and RFC loans and to buy in outstanding debt rather than to distribute it in any large amounts as dividends to stockholders.

What 1941 Reports Disclose For 1942

(*Continued from page 539*)

throw any light at all on 1942 prospects. The same will be true of the reports of General Motors and Chrsyler—not yet out—which will be much better for 1941 than can be hoped for 1942. Most merchandising companies had a good year, but can not expect equally favorable conditions this year, as discussed in detail in the feature on retail trade issues in the dividend forecast section of this issue on page 545.

Manufacturing companies which now have larger war volume than they customarily had of peace volume, and which are already adjusted to handle it efficiently, not only had excellent 1941 earnings results but are in a favored position either to maintain high earnings in 1942 or to increase them further—the latter variations depending upon the stiffness of forthcoming tax increases. Examples include Bendix Aviation, whose per share net profit increased to $6.41, against $4.42, or by 45 per cent; Bell Aircraft, with a 1941 gain of 385 per cent from $1.14 per share to $5.55; and Vultee Aircraft, with an increase from 36 cents per share to $2.95 or by 720 per cent. It should be noted that betterment from a previous low per share base of earnings always exaggerates the percentage gain.

The oil industry at last turned the corner in 1941 and most reports are sharply improved. For example, Pure Oil showed a smart jump from $1.21 per share in 1940 to $2.86 last year, an increase of 136 per cent. Standard Oil of Kansas lifted earnings by 106 per cent from $1.42 to $2.93. In contrast, Plymouth Oil, a crude producer, had but a nominal gain. This year's oil outlook is not without major uncertainty. It remains to be seen how much civilian consumption of gasoline might be reduced as motorists cut down mileage to conserve tires and cars and whether this would be fully offset by military demands. It also remains to be seen whether shortage of ocean tankers, due both to submarine sinkings and increased use of tankers in supplying both our own military forces now at trans-ocean points and our allies, will result in rationing of gasoline in the populous eastern states—and perhaps some others—by spring or summer.

The recent tobacco company earnings statements continue the drab performance indicated by earlier reports of others in the same field. Thus Lorillard (Old Gold), U. S. Tobacco and Helme all reported substantial declines from 1941 earnings. It is impossible to see any betterment for 1942 if taxes are raised as much as we think they will be. The same conclusion applies to the utility companies. Two of the important ones recently reporting — Consolidated Edison of New York and American Gas & Electric—had substantial setbacks. On the other hand, the long abused railroads continue to show wide gains in all current reports and appear to have a better than even chance of either maintaining high 1941 earning power this year or bettering it.

The majority of year-end balance sheets simply confirm the general trends noted in our article two weeks ago: Sharp increase in inventories, more numerous instances of declines in cash items than increases, general increase in receivables and current liabilities, many instances of increased bank loans.

You have received—or in due course will receive—formal reports and balance sheets from the companies in which you have invested your money. If you do not study them carefully, in the light of the

lessons and trends commented on in these articles, you will have only yourself to blame for ignorance as to what is happening to your capital. There was never a time in which study was more essential to your welfare as an investor; nor never a time in which it was more necessary to keep continuously abreast of changing conditions *as they change.*

If you have regularly read this magazine, you will not be unduly impressed by certain of the large 1941 earnings for you will have previously noted that the factors behind that earning power have already changed. Similarly, changes that we are continuously analyzing will not show up visibly in earnings until 1942 interim reports begin to come out. But meanwhile you can be sure that they will put their mark on individual security prices.

What's Ahead for the Market

(*Continued from page 528*)

First National Stores, Food Machinery, Freeport Sulphur, Hazel-Atlas Glass, Hercules Motors, Hudson Bay Mining & Smelting, International Mercantile Marine, International Paper, International Shoe, International Silver, Interstate Department Stores, Intertype, Kroger Grocery, Lehigh Portland Cement, Link Belt, Liquid Carbonic, Lone Star Cement, Mack Truck, Madison Square Garden, Masonite, Mueller Brass, National Dairy, National Oil Products, Newmont Mining, Newport Industries, Oliver Farm Equipment, Outboard Marine & Manufacturing, Pacific Mills, Pan-American Airways, Pet Milk, Philco, Remington Rand, Ruberoid, Safeway Stores, Savage Arms, A. O. Smith, Snider Packing, Spicer Manufacturing, Square D, Swift & Co., Union Carbide, Wesson Oil & Snowdrift, Western Union, Weston Electrical Instrument, and Wheeling Steel.

In our issue of January 10 we presented 10 selected issues, but advised that purchases be deferred. We now advise current purchase of the following 5: Allegheny-Ludlum Steel, American Car & Foundry $7 preferred, Southern Railway preferred, Thompson Products and U. S. Steel.

—Monday, February 16.

As I See It!

(*Continued from page 525*)

the British Isles. Hitler's plan of campaign for once is very clear. No one can doubt that before all else his current plans call for an all-out drive in collaboration with Japan to destroy British power in the near and far East. Thus Japanese successes call for an all-out British concentration in the Mediterranean.

For if the Axis wins here, the British Isles are sure to be subjected to a combined attack and siege by their enemies. Britain must take the risk now, and gamble on the outcome in the Mediterranean.

British leadership as far back as Munich has, with the exception of Churchill, done little to inspire confidence, because the world cannot believe that the genius which was able to maintain and conduct the affairs of a great empire should be so notoriously incapable of formulating plans for the defense of the key bastions of the empire or white civilization in the East.

The psychological effect of the succession of English failures is already producing serious repercussions, which makes the task of the U. S. a very hard one. The first definite sign came from Egypt when King Faruq made significant shifts in his government;—in the open collaboration between Vichy and Germany;—in Arab restlessness, and disgruntled comments from China;—in the unwillingness of the Argentinian and Chilean governments to make a definite break with the Axis.

In the face of the possibility of serious defections, it must be apparent to all thinking men today that it is necessary for us to adjust our ideas to a recognition of the realities in the situation, and prepare for the worst—for the possibility that the U. S. *can* be attacked

and invaded, and that we *can* lose—unless we make these United States into an armed camp, the same as the English have done with the British Isles.

It is evident that the British are no longer equipped for leadership, and that the U. S. *must* take the lead.

1. We must make sure that Churchill remains at the head of the British government, and frustrate Hitler's plan to oust him. The Tory and Fifth Columnist groups in England, by which Churchill is surrounded, will unquestionably attempt to force him out on the grounds of incompetence, when it is *they* who have treacherously betrayed their country to preserve their power and for personal gain. We cannot trust these individuals whom Rudolph Hess came to see when he "safely" arrived in England, for they have always been sympathetic with the Fascists. It is they who have belittled the efforts of the U. S. in behalf of England, and who instigate such speeches as that made by Premier Hepburn in Canada last week, in which he said that "the U. S. was afraid to tackle the Japanese," and that if, as we say, "we are looking for the Japanese fleet," he would like to advise us that they are to be found "at Manila, at Singapore, and at Shanghai, where the once proud U. S. Marines are now being humiliated by being forced to draw rickshaws through the streets."—These words from the leader of a country to which we are allied in a death struggle! It is evident that the Fifth Column is still working in the British empire, and we must without delay formulate plans to deal with it adequately.

2. We must prepare ourselves to be able to take the offensive *anywhere,* and to attack on battlefields of our own choosing. We cannot win if we permit the Axis to continue to hold the initiative. We should lay our plans carefully. While one branch of our service is concentrated on building our defenses at home, another organization should deal with lease-lend aid. Gestures will not suffice. Only when transportation is assured in sufficient quantity should men and materials be sent. The Axis partners would like nothing better than to have us scatter our energies around the globe, with insufficient strength to meet their onslaughts anywhere;—to lead us into using up our arms in a weak offensive, and then to push us back when they are sure our reserves are at a low ebb.

3. We must re-appraise our position in relation to Russia—whether it is possible for Russia to disrupt Hitler's spring campaign in the Mediterranean on the one hand, and whether she can be sufficiently equipped to withstand a new German offensive this summer, on the other. Despite reports of Russian successes, the maps would seem to establish the German contentions that they are retreating according to plan. Their armies remain anchored around Leningrad—where, by the way, it is much colder than it is around Moscow. At the same time, the Germans are retaining their grip on the vital southern sections necessary for a drive towards the Caucasus and Iraq, while General Rommel has already begun his spring campaign in Africa. We can expect an all-out Nazi drive on Suez from both sides.

To make Russia an important and valuable ally for the U. S., and as useful to us as our sending of arms is to her, we should equip a sufficient force of men and materials, with 500 to 1000 planes, to be sent to Siberia—backed up by the concentration of a large force in depth in the Aleutian Islands and Alaska, from which sufficient reserves could be brought to the front quickly. Unless we can do this, I do not see what we have to gain by sending materials to Russia's western front, for if Hitler succeeds in driving through to meet the Japanese in the Indian Ocean, Russia will be a "gone goose."

4. Another act of great importance that is essential to our safety is the elimination of Vichy influence in Martinique. I do not doubt that the Axis powers are using this island for basing the submarines which have been prowling along our shores, despite stories about "long range" or "suicide" craft. If we are not now thoroughly disillusioned about Vichy, and do not take definite and firm action in dealing with Petain, we will wake up to find Hitler has beaten us to it.

5. Iceland and Hawaii must be made impregnable to any potential Axis attack and there is no time to lose.

6. We should tighten up to prevent sabotage and "carelessness." If we are to judge by what happened on the Normandie, overwhelming opportunities exist for sabotage. If it is just gross carelessness, as Admiral Andrews claims, then officers who cannot bring order out of chaos should be dismissed. Possibly the reason that Stalin was able to make such a valiant fight against the Nazi invasion was because he had liquidated—rather savagely, it is true—the Fifth Columnists, their fellow travelers, and incompetents in high places in Russia.

Also there seems to be entirely too much confusion in organizing for this war, which is after all clearly a matter of life or death for this nation. Lack of centralization in the local draft boards makes for inefficiency in inducting men into the army, and in grading them in accordance with their qualifications, and should be speedily corrected.

The times call for concerted and aggressive action, not for the laissez-faire policy which adjusts and compromises, and is suited only to normal times. There would be no reason for pessimism, if we would stop imitating the British in muddling through, and get on the job seriously. We have everything at hand necessary to enable us to *win* this war, and we cannot permit poor organization and planning to *lose* it for us.

Our machines are just now going into the super-production of which we are capable, and our soldiers at the front have shown unequalled qualities in courage and stamina. There will be 7 million of them, and more, and we have got to work day and night to supply them with the necessary war materials and the planes to protect them while they are fighting for us all over the world.

We cannot wait until next year. Neither Hitler nor the Japs will give us the time. By some herculean effort, we *must* do the job now—and it can be done if we forget differences of politics, all kinds of differences, and work together to save our country.

For unless we do, Hitler will be our boss, and running rickshaws will be the least of the humiliations that Japan will inflict on our men and women.

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